Auditor’s Annual Report on London Borough of Lewisham Council

2022/23

November 2023

Contents

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.

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

© 2023 Grant Thornton UK LLP.

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 2022/23 is the third 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. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below. Overall the Council has progressed recommendations from the prior year and these are responded to either, partially, or in full. The rating remains 'amber' for 2022/23 as the Council has made changes to its arrangements in year and therefore new improvement recommendations have been raised to aid the Council in ensuring these demonstrate best practice, we have continued to observe that arrangements are robust across all areas and have not identified weaknesses.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements		2021/22 Auditor judgement on arrangements		Direction of travel
Financial sustainability	No risks of significant weakness identified	A	No significant weaknesses in arrangements identified, but improvement recommendation made to support the Council in improving arrangements.	A	No significant weaknesses in arrangements identified. Improvement recommendations were made which have been responded to.	⟷
Governance	No risks of significant weakness identified	A	No significant weaknesses in arrangements identified, but improvement recommendation made to support the Council in improving arrangements.	A	No significant weaknesses in arrangements identified. Improvement recommendations were made which have been responded to.	⟷
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	A	No significant weaknesses in arrangements identified, but improvement recommendation made to support the Council in improving arrangements.	A	No significant weaknesses in arrangements identified. Improvement recommendations were made which have been responded to.	⟷

G No significant weaknesses in arrangements identified or improvement recommendation made.

A No significant weaknesses in arrangements identified, but improvement recommendations made.

R Significant weaknesses in arrangements identified and key recommendations made.

© 2023 Grant Thornton UK LLP.

Executive summary (continued)

Financial sustainability

The financial environment with which the Council is operating continues to be challenging. The cost of living crisis and inflation continue to be pressures in the sector and the Council is experiencing increased demand on certain services, such as temporary accommodation, which is also impacted by high costs of private provision. Pressures continue to be felt in Adult and Childrens Social Care as complexity of needs increases, as well as costs from inflationary impacts.

These pressures caused the Council to initially produce an outturn position, against a breakeven budget, of £22m deficit. However due to the Council's approach to budget setting pre-determined contingencies that were set aside ahead of the financial year were able to reduce this to a £7m deficit. This has been managed via the unplanned use of reserves, and represents pressures such as pay and non-pay inflation over and above estimates included within contingencies. The Council has a comparatively strong reserves position, particularly against other London Boroughs, and as s temporary measure has been able to support this position without the need to negatively impact services or projects reserves were earmarked for.

The financial position has been impacted by under-delivery on the Council's savings programme. Savings have been rolled forward for several years in some cases and therefore our recommendations focus on the need to refresh the existing savings programme to ensure it remained realistic.

The Council has set a balanced budget for 23/24 which includes realistic assumptions based on known information at the time it was set. The budget monitoring process is effective in enabling the Council to update assumptions should risks emerge. The Council has also updated its Medium Term Financial Strategy in both 2023/24 and 2024/25 at the time of writing. Due to the review of assumptions as new information has emerged the Council has been able to significantly reduce its medium-term budget gap, this sits at £15m for 4 years from 2024/25 is manageable within the Council's reserves as a last resort. We are aware that Council is not planning to be reliant on reserves to balance the budget and is working with serviced to develop budget reductions and savings for future years to ensure their reserves remain available to sustain the Council longer term and support the projects they were set aside for.

Like many Council's with responsibilities for education service the Council is experiencing a cumulative deficit in relation to its Dedicated Schools Grant which funds pupil placements across all categories of education. The Council is developing a mitigation plan and working closely with the Department for Education to control costs and reduce the deficit. Cost drivers have been pinpointed to placements within the High Needs Block due to escalating complexity of cases and the requirement of additional resources to support these pupils. Linked to this subsection of pupils is the need for home to school transport which continues to be a pressure for the Council. Working to place students closer to home is included within the mitigation plan.

The Council declared a Climate Emergency in 2019 and has developed a strategy to respond to this by becoming carbon neutral by 2030. The Council has considered the early stages of this plan effectively within its current financial plans, and so understands the cost impact of its objectives to date. The strategy is long term in nature and so currently in its infancy, and therefore not currently fully costed. Progress is well monitored and positive to date.

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.

© 2023 Grant Thornton UK LLP.

Executive summary (continued)

Governance

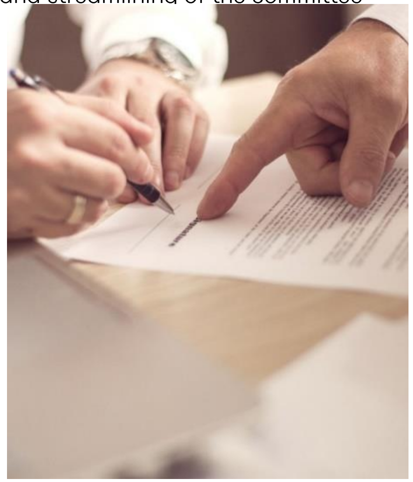
The Council reviewed and refreshed its Risk Management Strategy in 2022/23 and the Strategy, covering 2023-27. This has resulted in changes in how the Council identifies and monitors risks within its risk register. This has been implemented from quarter 4 of 2022/23 and is expected to evolve over 2023/24 as the process becomes embedded. Notably the Council has acquired bespoke risk management software to improve the information being captured and provided to decision makers.

The Council continues to be well supported by its Internal Audit function who completed 50 reviews in year, 19 of which related to 2021/22 and effectively cleared a backlog of reviews from the prior year. The Internal Audit Plan is heavily weighted towards assurances in relation to individual schools however, given a good track record of performance in this area, the Council may wish to ensure it gains assurance from a wider range of Council services. The function has experienced some capacity issues in 2022/23 that has resulted in 6 reviews being deferred. These will be carried out in 2023/24 and so no gaps in assurance have been identified. The Internal Audit function supported the prior year external assessment of its arrangements against required standards by undertaking a self-assessment during 2022/23. This confirmed that the service has addressed all of the small number of improvement matters noted in the 2021/22 external assessment.

In order to ensure standards are maintained, and action taken where this isn't the case, the Council continues to monitor complaints. It sets itself a target of responding within 10 days, it performing marginally outside of this expectation with most having been answered in 11 days. The Local Government and Social Care Ombudsman acts as a point of escalation for complainants not satisfied with the Council's remedy. The Council has received a letter from the Ombudsman in year with concerns around the timeliness of its response to its recommendations.

The Council has updated its Constitution in year, which underpins how decisions are made. The approved changes relate to a strengthening and streamlining of the committee structure. This has achieved efficiency whilst maintaining a strong governance culture.

Governance arrangements at the Council continue to be effective and minor improvements have been raised, no weaknesses were identified.



© 2023 Grant Thornton UK LLP.

Executive summary (continued)

Improving economy, efficiency and effectiveness

The Council has fundamentally reviewed how it monitors its non-financial performance in 2022/23 by developing a centralised online dashboard for monitoring these metrics. This is made available publicly via the website in order ensure performance is transparent and easy to challenge. There is a clear link between the performance indicators being reported on and the Council's priorities within the Corporate Strategy and therefore means the Council are proactively monitoring the actions and targets that impact on their objectives. The information included in the dashboard is approved, and scrutinised, by members prior to publication publicly. The reliability of decisions that can be made based on this data depend on its accuracy and relevance. Currently there is a significant time-lag between the reporting date and the period the data relates so and this could be improved to aid decision makers.

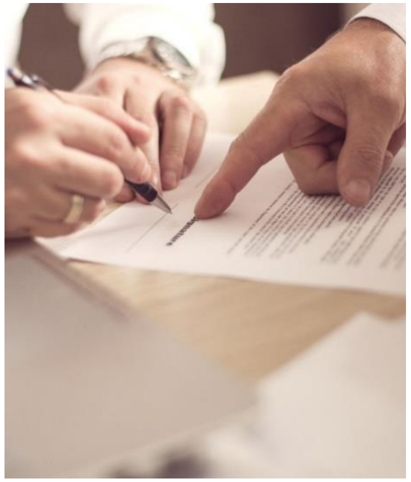
KPI reporting highlights that the Council is behind target in 18% of its metrics, the most significant variance is within the provision of homes. The Council is taking steps to positively impact this metric which includes bringing back Lewisham Homes, the Council's wholly owned subsidiary responsible for the maintaining and building of homes in the borough. The transfer began in 2022/23 and completed 1 October 2023. A phased approach has been taken to ensure lessons can be learned and applied via iterative improvements. As such there is evidence it has been well managed to date, although arrangements are yet to fully embed. The transfer aims to provide more control over the monitoring of housing related activity and therefore if activities are managed effectively there is the opportunity for the housing related metrics to improve. Given the timing of the transfer this has yet to take place.

The Council has received a 'no assurance' rated report from Internal Audit in the 2022/23 year which has found poor arrangements at all stages of the IT Asset Management process. The Council has taken immediate action, with many of the recommendations addressed between the draft and final report. The issues relate to a lack of documentation of arrangements and inconsistent application of controls. The IT physical asset portfolio at the Council is not significant in context of the estate and no such issues have been highlighted outside of IT specific assets. The rating was isolated and did not cause Internal Audit to modify their year end opinion of controls and process at the Council which remains a view of positive assurance.

Ofsted undertook a focused visit of Lewisham's Childrens Services and reported on these in 2021. This was a follow up from a 2019 inspection of the service which 'required improvement to be rated good'. The re-visit noted improved and strengthened services for children in care and noted 5 further improvements. The Council is expecting a full re-inspection imminently, and have taken extensive measures to prepare and respond to previous findings. A detailed self assessment suggests that the Council are confident that they are now providing good services to children, young people and families. Newly developed and implemented strategies to support improvements have been consistently monitored via the Corporate Parenting Board.

In its aim to increase the supply of affordable housing in the borough the council engaged Caledonian Modular Ltd (CML) in 2020 to build bespoke modular homes. Projects of this nature, with the same company, had been undertaken by other organisations in the public sector and although using modern methods of construction was riskier than a traditional approach members assess risks associated with the project and approved this following due diligence review of the company. The Company went into administration in March 2022 as a result of high inflation and sub-contractor issues and this has highlighted some improvements that could be made to the due diligence processes. Following a detailed options appraisal, including extensive cost analysis, it has been agreed that the project should be terminated and cost recovery maximized. This is the option with which the Council incurs the least financial loss. Due to the bespoke nature of the design cost recovery is proving challenging and as such we have made improvement recommendations that the Council may consider reviewing its procurement and contract management policies to strengthen how risks are considered in these processes and ensure lessons are learned from the outcome of this project.

Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by Council officers with whom we have engaged during the course of our review.



Use of auditor's powers

We bring the following matters to your attention:

	2022/23
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.	We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.
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.	We did not issue a public interest report.
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.	We did not make an application to the Court.
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.	We did not issue any advisory notices.
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.	We did not make an application for judicial review.

© 2023 Grant Thornton UK LLP. Confidential and information only.

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 12 to 41.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications

© 2023 Grant Thornton UK LLP.

The current LG landscape

National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The Government announced the Provisional Local Government Finance Settlement for 2023/24 in December 2022, with the Final Settlement confirmed in February 2023. The Settlement distributes a range of grants and business rate income allocations to local authorities, and these should be included in the annual budget. The Final Settlement for 2023/24 distributed £17.1bn of funding to local authorities, a 4.8% increase in cash terms from 2022/23. The Settlement also provides the Core Spending Power for local authorities, which is the level of resources assumed available to fund the net budget. Core Spending Power includes the levels of government grant for the coming year, for example revenue support grant, new homes bonus and social care grants. It also includes assumed levels of business rate income.

Core Spending Power includes the assumption that local authorities will increase council tax up to the referendum limit, which for 2023/24 is 3% plus an additional 2% for upper tier authorities who provide adult social care services. District Councils can increase council tax by £5 or 3%, whichever is higher.

The Government will undertake Spending Reviews that set out government departmental budgets over a period of 3 years, including local government. These reviews are different to, but inform, the annual Local Government Finance Settlement.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

© 2023 Grant Thornton UK LLP.

The current LG landscape

National context

Cost of Living Crisis

The rising costs of fuel, food and other essentials are combining with existing disadvantage and vulnerability and putting many households at greater risk of both immediate hardship and reduced opportunity and wellbeing.

Councils and local partners continue to do what they can to protect people against higher costs, targeting help at those facing the most complex challenges.

Councils' range of front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience.

The dramatic increase in inflation alongside increases to the National Living Wage, have added £2.4 billion in extra costs onto the budgets of Councils in 2022/23. In 2023/24 Councils are facing a funding gap of 3.4 billion, with a funding gap of £4.5 billion the following year.

To support its most vulnerable residents through the cost-of-living crisis, Councils face additional cost-pressures which will need to be addressed to avoid further cuts to vital frontline services.

Housing

Local Authorities work closely with registered providers for social housing to deliver England's social housing supply. Their work is regulated by the Regulator of Social Housing, using value for money as a key regulatory standard.

The housing sector faces significant economic challenge. In 2022, the Regulator estimated that half of housing providers' headline costs related to major repairs. Where Local Authorities have borrowed to finance housing, the margin for paying rising interest rates and setting aside repayment funds is becoming more difficult to achieve.

Managing trade-offs is difficult. Members need to have a clear understanding of their organization's performance, and decisions need to be transparent for stakeholders. Local Authorities need to get the best out of the resources they have available for delivering safe, well-maintained homes. This means using effective procurement and contract management arrangements; adopting rolling plans of service reviews, supported by strong performance indicator reporting; recruiting and retaining staff with the right skills; and maintaining physical control over assets.

Carbon reduction

The UK government has a target of 100% reduction in 1990 greenhouse gas emissions by 2050. Many of the carbon budgets set by the government are relevant to Local Authorities. By June 2022, more than 250 English Local Authorities in England had declared Climate Change Emergencies and set carbon reduction targets of their own.

To deliver value for money whilst also implementing carbon reduction, Local Authorities need strong processes. Carbon reduction costs need to be reflected within medium-term financial plans; funding needs to be consistent with other strategic priorities; costs need to be accurately recorded and monitored; and the relative costs of acting versus not acting need to be evaluated on an ongoing basis.

Climate change is often already reflected on Local Authority risk registers and where Local Authorities set themselves strategic goals around carbon reduction, effective processes for monitoring progress against those goals is needed. Training should be kept up to date both for executives and for members overseeing climate change and carbon reduction risk and performance. As legal requirements are evolving and new sources of funding and grants continue to come forward, horizon scanning for new duties and opportunities will also need to be vigilant.

The current LG landscape

National context

Dedicated Schools Grant Deficits

On 12th December 2022, the UK Government announced that it would be extending statutory override for the Dedicated Schools Grant (DSG) in England for the next 3 years, from 2023-24 to 2025-26. By the time this period elapses, the statutory override will have been in place for six years.

Recent estimates put the total national deficit for local authorities in tens of billions by March 2023. Whilst statutory override remains in place, there is no requirement to make provision from general reserves for repaying the deficit. Reforms and savings targets have been agreed with those local authorities with the biggest deficits. However, all local authorities need to focus on managing (and reducing) their deficits – because how these will crystalize as liabilities in 2026 is not clear.

Within DSG, the High Needs Block has proved particularly problematic. The Block is there to support children with special educational needs (SEN), which means providing more teaching staff and resources. However, there is often a significant gap between funding granted per child and the actual cost of the teaching and other resources needed.

Every parent has the right to apply for support for their child. An expensive appeal process also exists. There are significant regional differences in numbers of plans granted by local authorities and cost management on those plans once they are granted. Managing (and reducing) the growing DSG deficits that arise as a result will be a challenge both for financial sustainability and for maintaining the overall quality and effectiveness of service provision.

Children and Young People - Social Care

Single tier councils and county councils spent £12.2 billion in 2021/22 and have increased their budget to £12.7 billion in 2023/24 as demand for children's social care services have increased.

Councils have a statutory duty to safeguard and promote the welfare of children at risk. A range of services can be provided including support to families as well as keeping children safe from harm and providing services for those children who are 'looked after' by the council.

In recent years there has been an increase in demand with an increase in the number of child protection places and looked after children, as well as an increase in complexity of the needs of the children.

The increase in demand and complexity has resulted in an increase in the cost of individual residential placements which are often not local and outside the Council's geographical locality as well as private and agency foster carers.

Many councils have failed to model and anticipate the increase in demand and as a result lack sufficient local quality provision and are now actively trying to meet this challenge.

Workforce

Local government faces multiple workforce challenges including skill shortage in areas like social work and planning and the lessening attractiveness of local government as a career choice when staff can be paid more for less stressful work in other sectors.

The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is therefore clear.

To achieve this aim, councils need to develop a workforce plan or strategy which not only sets out aims and aspirations but also a roadmap with numerical targets against which outcomes can be measured and assessed

The workforce strategy needs to be clearly linked with strategic objectives and financial planning.

Without a corporate workforce plan, Councils cannot take a strategic view of how the needs of the council in terms of human resources will develop over the medium term and appropriate development through training and recruitment may not be undertaken

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.

2022/23 Financial Performance

Members approved the 22/23 budget and medium-term financial plan (MTFP) in February 2022. For 2022/23, in line with legislation, the Council 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. Our work in the prior year confirmed this position was affordable.

The forecast outturn position is monitored by the Finance Team and reported to members via Mayor and Cabinet quarterly. The year end outturn position was initially an overspend of £22m against the net general fund revenue budget. The Council sets aside a series of provisions within each budget as contingency to fund unexpected costs. These provisions, alongside legacy Covid-19 grant funding, were utilised to minimse the use of the Council's reserves by reducing the remaining deficit to £7m. This £7m deficit was then funded from the Council's General Fund and earmarked reserves and represents pressures in excess of estimates initially made and included within contingencies within the budget.

The drivers of the deficit position include higher than expected energy costs and pay award, which were estimated at the time the budget was set, for which specific contingencies were set aside and so could be mitigated. The most significant remaining pressures which were funded from reserves, or offset by overspends in other services, relate to childrens' social care, education services and strategic housing which are all demand led services and common sources of pressure across the sector, as such not evidence of a lack of control specifically attributable to the Council. These services have also felt pressure from pay and non-pay inflation leading to the overspends, as well as demand factors. We have noted extensive actions being taken to respond to the issues within education (3E's section) and childrens' social care (Finance – Savings section). The strategic housing pressure is a result of increasing demand for temporary accommodation, with demand outweighing supply the Council are being forced to fund expensive private provision to meet its statutory duties. The service is actively seeking to reduce numbers accommodated and is set to embark on the purchase of up to 300 new units for this type of accommodation following the award of Greater London Authority (RTB) grant and Mayor and Cabinet approval. This will potentially reduce the numbers accommodated in expensive nightly paid accommodation. This seeks to address both the cost and supply challenges associated with the service but does not impact demand.

Increasing demand for homelessness related services, such as temporary accommodation, is increasing across the sector and therefore the Council may benefit from learning from other organisations who have also successfully responded to the demand side challenge via prevention strategies. Examples of Early Intervention Services have been identified at other Council's which include within their remit research into homelessness and community based officers working with people at risk of homelessness before this occurs. (Recommendation 1).

20234/24 Budget and Assumptions

The Council approved its 2023/24 budget at the Council meeting held on 1 March 2023, ahead of the 23/24 financial year. The Council's spending power is predominantly determined by the Local Government Settlement, made up of a business rates baseline funding figure and revenue support grant (RSG), which is announced annually and provides funding to the Council on a one-year basis. the provisional settlement for 23/24 was published on 19 December 22 with the final settlement announced 6 February 23. As such the MTFP and budget was based on the provisional figures. The Council's quarterly budget monitoring does allow for revisions to the budget should significant new information become available and no changes were made in the final settlement affecting the Council's budget.

The Council set a balanced budget for 23/24 which matched net expenditure of £263.7m (£248.6m in 2022/23) matched to available funding. The Council's Medium-Term Financial Strategy and 23/24 budget continues to rely on 3 key sources of funding, in addition to the Local Government Settlement, common place across Councils - council tax, retained business rates in addition to the baseline and government grants.

The Council continues to use a roll forward approach when setting its budget each year, using the prior year as a starting point. In the prior year there was uncertainty, in particular, around expenditure assumptions such as energy costs, pay costs as a result of the pay award and non-pay inflation and the Council set aside contingency to fund these should these costs arise in excess of the pressures already funded within the budget. As noted the Council made use of these contingencies and therefore we would expect these assumptions to be reviewed again within the 23/24 budget to ensure they remain realistic.

© 2023 Grant Thornton UK LLP.

Financial sustainability (continued)

Key assumptions in relation to sources of income have been reviewed as part of the budget and do remain realistic, grants income is determined by government allocation notifications and therefore no estimates or assumptions are required in 23/24. The council tax threshold has been set at the maximum allowable before a referendum is triggered of 4.99% (including the social care precept) in order to maximise this stable form of income, demonstrating positive budget management. The revenue that the Council can rely on from this source is also dependent on collection rates. The Council has assumed within the budget that collection rates will be 94% but sets itself a target above this of 96% to encourage stretch and maximise the benefit to the Council's overall budget. This accounts for and adjusts the budget for optimism bias and demonstrates strong budgetary control. The 22/23 outturn confirms that 92.8% of council tax due had been collected compared to the 95% assumption for 22/23. This does suggest that a reduction in the assumption for 23/24 was appropriate based on the information available at the time of setting the budget, and also accounts for the emerging risks associated with current high levels of inflation and cost of living crisis that impact collection rates.

Reforms in the Business rates system were expected to be imminent, originally planned for 2020, but have been delayed over recent years. The reset of the business rates system was not addressed as part of this Spending Review for 2023/24 (which also provided information for 24/25). However, Government has reaffirmed its commitment to do this in the next Parliament. The Council has assumed that the Business Rates Retention (BRR) consultations will be announced in 2025/26 at the earliest and so has retained current assumptions for 23/24 and 24/25. The risk of a redistribution of business rates away from the Council still exists but with no information as to the changes under the reforms it is appropriate to assume no further growth after 2024/25 within the MTFS. The risk has been recognised within the budget documentation and so can be monitored as it emerges through the budget monitoring process in year and budget setting process annually.

The Council also generates income from fees and charges, each charge has been reviewed and clear rationale provided for each. Services are expected to increase fees in line with inflation and this is, again, demonstrative of maximising a key revenue stream and robust financial management in respect of income. Where a general inflation figure is being used the Council assumes in the region of 10% which is in line with CPI inflation rates between September 22 and March 23 when the budget setting process was taking place. Inflation has begun to reduce in 23/24 (6.7% in August 23) however this is not evidence over over-prudence in the assumptions as the estimate was based on the available information at the time. In addition the Council tends to use specific inflation rates for individual fees and charges based on the cost drivers of each service, as opposed to a general rate, there assumptions are related to the nature of each service and can be considered realistic. There is the caveat that increases in charges can lead to reductions in demand or usage but the budget monitoring has not identified significant pressures coming from services which attract fees and charges.

In relation to expenditure assumptions, at the point of updating the MTFS in July 2022, the Council assumed increases of 3% for the pay award and 2.5% for non-pay inflation for 2023/24.

The Council uses the budget setting process to update assumptions as new information becomes available and this led to a revision of the inflation assumption uplifted by approximately 5%, from the initial assumptions.

Following a period of rising inflation in 2022/23 inflation has begun to decrease from a high of 10.5% in December 2022 to 6.7% in August 2023. The Bank of England expects inflation to be at 5% by the end of 2023 and keep falling towards the target of 2% in 2024. Therefore, although the initial estimate seemed optimistic, the forecasts render the assumption appropriate within the year and demonstrate the forward looking nature of the budget.

Regarding assumptions in relation to the pay award for the 2023/24 budget in February 2023, the national employers made a "full and final" 3.5% offer to council chiefs on their basic salary for 2023/24, this was less than the 3.88% being requested. Council staff generally have been offered a pay rise of at least £1,925 for 2023/24, equating to between 3.88% and 9.42% depending on their pay grade and this has been reflected in the budget and therefore the assumption appropriately accounts for differences due to pay grades.

Budget Risk

The budget is structured around:

- Budget assumptions, including: Budget Reductions, Council Tax, and Inflation;

- Budget pressures to be funded; and

- Risks and other potential budget pressures to be managed

Budget reduction for 2023/24 relate to the £20.3m of savings required to balance the budget (including prior year savings). Budget pressures are those risks that the Council has been able to identify, quantify and fully fund within the balanced budget position set, these total £43.8m for 2023/24. The most significant risks identified are salary inflation (£7m), short fall in salary inflation for 22/23 (£4m) and non-pay Inflation (£5m) where we have determined that the assumptions are realistic and therefore supports that these are funded at an appropriate amount.

The budget also includes consideration of risks which have not been funded, due to insufficient funding to do so, and/or are difficult to quantify with any certainty. Officers continue to undertake work to fully assess and monitor these risks, have contingency included within the budget to respond as they emerge and have sufficient reserves (see Reserves section). The risks identified are in line with sector wide risks that apply to Lewisham. Emerging pressures noted from the 2022/23 outturn and 2023/24 budget monitoring to date are childrens' social care and temporary accommodation within the strategic housing service, the Council are also in the process of bringing Lewisham Homes Ltd services back in house.

© 2023 Grant Thornton UK LLP.

Financial sustainability (continued)

We would suggest each of these areas carry potential unanticipated costs and therefore are additional risks to the budget. The Council should therefore continue to keep risks under review to ensure completeness of risks being considered, and mitigated, incorporating these emerging areas into financial plans as they arise (Recommendation 2).

Regular engagement has occurred between the S151 Officer, Executive Management Team and the Senior Leadership Team regarding the level of financial risk across the Council and the importance stressed of everyone being accountable to deliver effective services within the financial envelope available. Financial risks have also been clearly communicated to members via an all member away day in October 2022, with two lunchtime roundtable sessions in January 23 and via an all member briefing in January 2023. As such we are satisfied that risks to the budget are clearly understood by decision makers.

MTFS

The 2023/24 Medium Term Financial Strategy (MTFS) that was reviewed by Mayor and Cabinet in July 2022 and identified a £9.9m gap in 2023/24 and a £25.9m gap between 2024/25 and 2026/27, including approved savings already identified. The Council has focused the period between July 22 and March 23 on balancing the 23/24 budget, successfully, via identification of a series of budget reductions approved by members. It has recently begun to review and update the 2024/25 MTFS based on the emerging financial position in its commitment to reduce the medium term budget gap. These efforts have been fruitful and there has been a significant reduction in the gap which now stands at £15.3m for the total MTFS. The main improvements are a result of assumed increased income from council tax and business rates. The 23/24 council tax guidance also covers 24/25 and the assumptions have appropriately been updated to reflect this. The Council have assumed increased collectability rates, compared to 23/24 assumptions (96% in the first 3 years of the MTFS and 97% in the final year). High inflation is reducing in the 2023/24 year to date and therefore it is sensible to assume that collection rates will increase in the medium term as the two are inextricably linked. At month 4 of 2023/24 collection is 1.3% adrift of the targeted level, although inflation has recently begun to reduce and a lag is expected before this impacts residents individual spending power. The Council is drawing on experience and best practice of high performing councils to ensure that our performance can improve to those levels forecast.

Business rates retention and top up assumptions have been updated based on the 2023/24 actuals which were not known at the time of setting the prior year MTFS, these figures used to estimate future years to ensure that the assumptions remain robust. The Council continues to assume contribution to collection fund deficits due to collectability being impacted by pandemic recovery, crucially in the final year of the updated MTFS this assumption ceases. We believe this to be appropriate as this would be 8 years post pandemic which is seen as sufficient time for recovery to take place.

For the 2024/25 MTFS the base case model indicates a balanced budget for 2024/25 and therefore a budget reduction process, required in the prior year, is not required and therefore the Council are able to focus on the medium term years of the MTFS alongside refining the 24/25 budget by undertaking a targeted internal budget process focusing on high volume / high value services, including benchmarking activity data to review current levels of expenditure to ensure that the 2023/24 budget can be stabilised and remain balanced in 2024/25. This is a more positive outlook than at the same time in the prior year and afford the Council time to develop robust plans to address the medium term gap.

DSG

The Council's expenditure on schools is funded primarily by the Dedicated Schools' Grant (DSG) provided by the Department for Education (DfE). The DSG is ring-fenced and can only be used to meet expenditure as defined in the School Finance (England) Regulations 2011. The ringfenced status was introduced in 2020 by statutory override and means the DSG deficits are separated from the wider finances, therefore the Council does not need to use its own usable reserves to cover the DSG deficits. The statutory override was due to end at the end of 2022/23 but has recently been extended. The extension of the override expected to remain for a further 3 year period, but is not permanent. After this point there is a strong possibility that the ringfenced status could cease. This would provide wider challenges for the Council's overall financial position in the latter years of the MTFP as the deficit would then need to be met from the Council's base budget and/or its usable reserves. It should be noted that Lewisham is not alone in this challenge, however it is imperative that the Council plan ahead for this issue in the medium term planning process.

At the end of 2022/23 the Council had a cumulative deficit of £13.1m against, and the latest forecast position for 2023/24 to date demonstrates a continued pressure with £5m further deficit forecast for the year.

	£'000	£'000	£'000	£'000
	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
DSG In Year Deficit	551	2,375	6,491	4,225
Cumulative Deficit (Unusable Reserve Position)	0	2,375	8,866	13,091

Financial sustainability (continued)

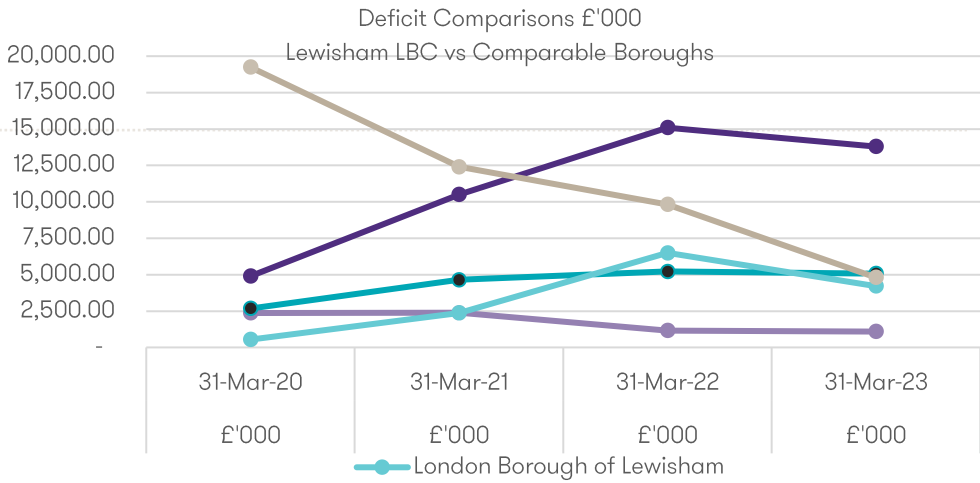
The grant is constituted of four parts, the Schools Block, Central Services Schools Block (CSSB), High Needs Block (HNB), and the Early Years Block (EYB). The deficit and pressure is almost entirely as a result of overspends in the High Needs Block which funds Special Education Needs and Disability (SEND) pupils in special schools and units. The issue is being caused by an increase both in demand and inflationary pressures, these pupils also require home to school transport which is an added pressure within the Education Service.

The Council is already taking extensive actions to respond to the emerging challenge which include:

- liaising with the Children and Young People directorate, Schools Forum and Head Teacher and Officer Working Group to develop a detailed mitigation plan,
- continually liaising with Schools Forum and DfE to secure one-off funding,
- increasing capacity and places at several schools,
- ensuring the dedicated Schools Finance Team continue to implement Deficit Prevention Plans which enable schools to work effectively towards a 3-year balanced budget position
- Working effectively with the DfE to support those schools from the DfE funded School Resources Management Advisers Programme (SRMA) initiative. In 2022/23, 6 schools were supported as part of this initiative with a further 5 schools planned over the next 6 months

DfE has developed two initiatives to assist a number of Council's in tackling their DSG deficits. The Council is part of the Delivering Better Value Initiative which commenced in the summer of 2023 and will further support the current mitigation strategy, it is expected this will also positively impact the overspends in education services related to home to school transport by placing students closer to home. The initiative supports 55 Councils and has 3 tranches prioritised based on size of the deficit, Lewisham is in the third tranche. Council's with the largest deficits are part of more enhanced initiatives including "safety valve" for which Lewisham does not qualify.

The year on year DSG deficit has remained relatively stable at the Council and is therefore not indicative of a significant lack of budgetary control, rather the impact of demand (£6.5m, £4.2m and £5m in 21/22-23/24 to date). When comparing Lewisham to 5 similar London Boroughs they also perform comparatively with regards to the year on year deficit figures, being the 2nd lowest deficit of the sample in 22/23. Comparative performance and the range of extensive actions being taken far ahead of the expected changes to the statutory override suggest that the Council has effective arrangements in place, currently, to respond to the risk.



Savings

In 2022/23, there were £25.8m of savings to be delivered included in the budget in order to breakeven, including £5.6m as yet undelivered from 2020/21, £8.4m undelivered from 2021/22 and £11.8m new savings for 2022/23. Due to the fact that savings are continually rolled forwards into each year's budget, with many undelivered for several years, the Council should would benefit from a wholesale refresh of the savings programme as part of the 2024/25 budget process to ensure the programme is realistic in its delivery expectation and based on the current operational environment. Given the track record of under-delivery against target it may be useful to include explicit optimism bias adjustment when developing a new savings programme to ensure it is realistic in its requirements (Recommendation 3)

At the end of 2022/23, £7.6m of savings remained undelivered, £6m of which were from prior years and £0.2m were written off as undeliverable. This has contributed to the £7m deficit position at year end that required the unplanned use of reserves. Two directorates account for the majority of the under-delivery, Children and Young People and Community Services, driven by pressures specifically in Childrens Social Care and Adult Social Care which is consistent with the prior year and the sector as a whole.

The 2023/24 budget requires savings, from budget reductions and income generation, of £12.8m to be delivered, in addition to undelivered savings from prior years carried forwards, giving a total of £20.3m savings required to breakeven. At month 4 of 2023/24 a similar challenging picture is apparent, with only £16m of savings expected to be delivered by year end due to continual challenges in Childrens Social Care.

Financial sustainability (continued)

The majority of prior year savings have been addressed with the exception of £2.5m, which again is within Childrens Social Care.

The Council has a detailed understanding of the causal factors associated with the pressures in Childrens Social Care and undertook a deep dive into the challenges, which was presented to members via the Public Accounts Select Committee in March 23, with supporting analysis. This information is useful to help members and officers in understanding the drivers of cost and demand, but to maximise the benefit of this work the Council should seek to develop a detailed action plan which is monitored with the support of service heads and members (Recommendation 4).

The report confirms that historically the pressures have been due to increasing demand, with rising numbers of referrals to the service. The Council have been working towards more intervention and support strategies to reduce the number of looked after children. To date actions have had a positive impact on reducing demand with a 6.3% reduction in the number of looked after children being supported by the Council at March 23 compared to the prior year, this has been maintained in 2023/24. However the Council has observed that despite the numbers reducing the complexity of the needs of the children in placements is increasing which carry a higher unit cost due to ratios of staff required. The Council is continuing to seek cost reductions via improved commissioning work with the PAN London Commissioning Alliance to secure more favourable rates, creating alternative capacity through in house provision, setting a 3-4 month target on finding alternative placements for those in high cost care (targeting local placements and extended family) and seeking to secure funding from partner organisations. These are all positive steps that are expected to take some time to embed, however there is commitment to a long term improvement journey in this service.

The deep dive approach to investigating the causal factors of the pressures in Childrens Social Care has been effective in clearly identifying where the Council should target its actions to address continued overspend and savings under-delivery. In 2022/23 and 2023/24 to date the Council has also experience significant overspends in Adults Social Care, Education Services and Strategic Housing and therefore may benefit from a similar investigative report, and supporting action plan, to address pressures in these services too (Recommendation 4).

Following on from the update of the 2024/25 MTFS work will now be focused on identifying at least £20m of savings for the period 2025/26 – 2027/28, as 2024/25 is currently a balanced budget. The level of savings targeted is greater than the forecast budget gap of £15m to enable robust option appraisal to take place by services and members, as well as providing a contingency of savings that could be mobilised should selected schemes not deliver as expected. This is a positive risk mitigation strategy and a direct response to the savings challenges being experienced.

The process of savings identification going forwards is being amended and will be a targeted approach to developing savings from strategic service changes over more than one year rather than one off non-recurrent savings or setting a fixed percentage target which can place pressure on future years' financial planning as they do not have a multi-year benefit.

This demonstrates an improved process in terms of savings that has not been present in the setting of the 2023/24 budget or prior years.

Reserves

The Council was able to develop a 2022/23 breakeven budget position without the use of its general fund and earmarked reserves, due to its approach of setting aside provisions and corporate budgets for specific risks identified in the budget setting process. The initial 2022/23 outturn was a £22m deficit position but the use of these contingencies reduced this to £7m which was an unplanned call on reserves.

At the end of 2022/23 the Council held £20m of un-earmarked general fund reserves and £78.5m of specific earmarked reserves, set aside to fund initiatives, projects and to manage risks to the organisation, This is the position following the unplanned use to fund the outturn deficit position.

The Council, has once again, set a balanced budget for 2023/24 without the planned use of these general fund and earmarked reserves which demonstrates its commitment to protecting its reserves to support the future sustainability of the Council and enable it to fulfil its objectives. This has been achieved via identifying £20.3m of savings to be achieved, £43.8m of quantifiable risks funded via available resources in the budget and £26.3m of corporate provisions set aside for emerging risks. £10m of these provisions have already been committed to fund the emerging 2023/24 deficit at month 4, reducing the forecast deficit to £13.5m, Should this position remain stable the Council has sufficient contingency in place to support this. This is dependent on the current forecast of £16m savings being achieved, should this not be successful then the Council would need to use its earmarked reserves to fund any resulting deficit. In addition the MTFS includes a medium term budget gap of £15m, which unless mitigated in full by the impending savings identification process could also need to be funded from reserves as a last resort.

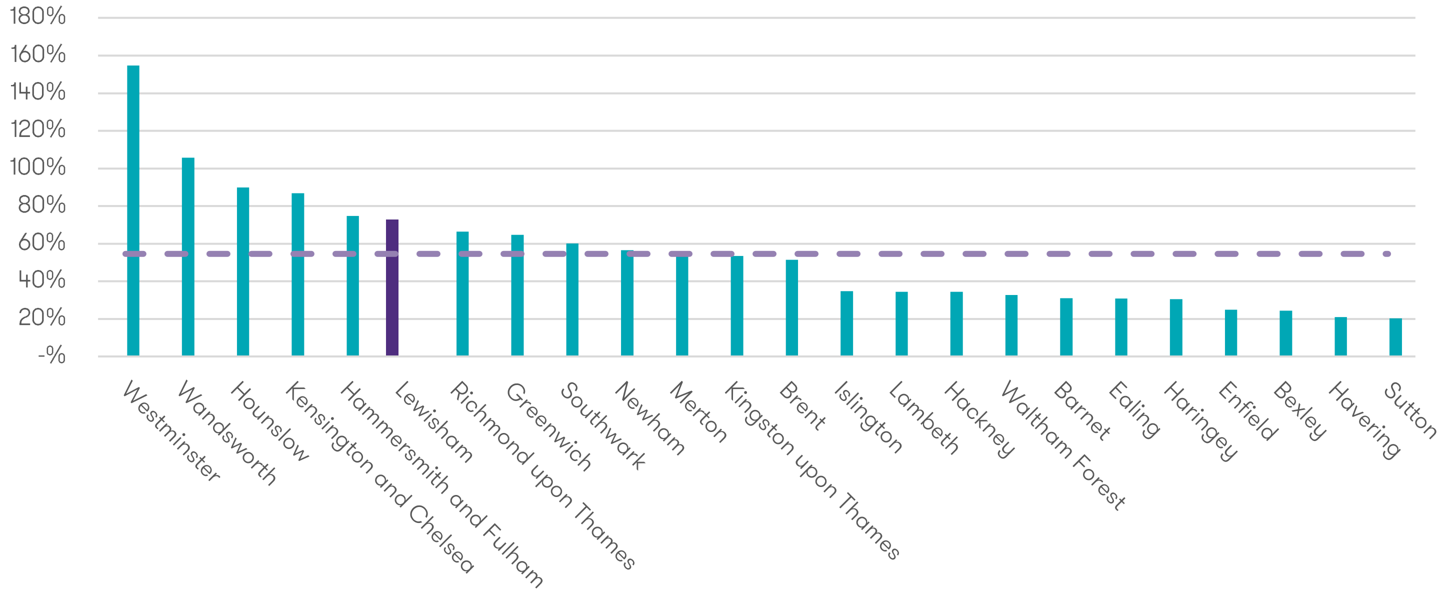
The Council has sufficient reserves, as a temporary measure, to support both the emerging outturn position for 2023/24 and the MTFS gap. However this would divert these resources away from the specific purposes they were set aside for, they continue to be a finite resource which once used need to be replenished to support the future aspirations of the Council. Finance regularly communicate with members on the importance of protecting reserves for unplanned usage and the approved budget and MTFS reflects this commitment.

Each year when setting the budget the S151 Officer is required to make a statement confirming whether the reserves of the Council are adequate, the statement for 2023/24 budget and MTFS is positive in this confirmation.

© 2023 Grant Thornton UK LLP.

Financial sustainability (continued)

General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)



The strength of reserves is evidenced via benchmarking against other London Boroughs which compares all usable reserves (including sinking funds, capital reserves, insurance and ringfenced reserves which are not as flexible/liquid by their nature but are considered usable in the accounts). This demonstrates a comparatively strong position with the Council being rated 6th out of 24 Councils. The robustness is further supported by a Grant Thornton paper entitled 'Lessons from recent Public Interest reports' which includes a strong emphasis on the importance of maintaining an adequate level of reserves. There is no formal definition as to what constitutes adequate, but Grant Thornton's view is that reserves should be a minimum of 5% of net spending and preferably be somewhere between 5% and 10%. £98.5m of earmarked and un-earmarked reserves is 37% of the 2023/24 budget and therefore the Council is above the threshold and therefore has sufficient headroom to support the medium term position forecast.

© 2023 Grant Thornton UK LLP.

Financial sustainability (continued)

Environmental Considerations

In 2019, the UK Government passed legislation to bring all greenhouse gas emissions to Net Zero by 2050. This was to align with the commitments in the Paris Agreement to limit global warming to 1.5 degrees. The Council declared a Climate Emergency in 2019 and pledged to be Carbon Neutral by 2030 in response to this legislation. A Climate Emergency Action Plan was approved by Mayor and Cabinet on 11 March 2020, which sets out how the Council plans to achieve this pledge, and implemented with immediate effect. Since then, the Council has also signed up to the UK100 “Net Zero Local Leadership Pledge”, alongside over 40 other local leaders, to reach zero carbon before national government.

Although the priorities within the strategy would be considered operational they will ultimately have a financial impact on the Council and therefore we would expect these to be effectively planned for in the budget and medium term planning so the Council is clear that these are affordable. Within the 2023/24 budget there is consideration of climate change and environmental implications, particularly in agreeing budget reductions, although this resulted in limited changes to the budget. There is specific budget set aside allocated to the Cleaner and Greener Corporate Priority of £1.650m for 2023/24 specifically to support the Council’s commitment to be carbon neutral by 2030. It includes investment in waste services, emissions based controlled parking and fly tipping. As such the Council has adequately considered the financial impact of what are relatively new initiatives when rolling forward prior year budgets. The same considerations were taken when developing the 2022/23 budget and the outturn reporting does not evidence any financial deficits resulting from climate change specific issues, as such the initiatives to date are not a source of financial pressure to the Council and are being managed within the available budget,

With the aim of limiting the financial burden to the Council it has developed a scheme which aims to share the cost of climate change with the community via the first Lewisham Climate Action Investment. This aims to raise £1m in order to boost investment in projects which help reduce carbon emissions and tackle the Climate Emergency. The scheme is a type of Community Municipal Investment – an investment model which allows residents to invest their money in projects that benefit the local community and receive a return on their investment. The minimum investment is £5 and investors can earn a return of 4.3% interest a year, fixed for the whole five year term. At August 2023 £659,957 has been funded from 612 investors compared to the £1m aim and therefore does show a positive uptake from residents. The investment scheme is managed by Abundance Investment, who have supported other councils with similar initiatives, and so ensures that the Council is supported in a new venture such as this. The money raised will be used to finance projects aimed at increasing the use of sustainable transport and therefore has a specific purpose and aim.

The 143 actions in the March 2020 Action Plan are divided across 5 themes - Leading by Example; Sustainable Housing; Decarbonised Transport; Greener Adaptive Lewisham; Inspiring, Learning and Lobbying. Progress on the action plan is reviewed annually by Executive Management Team and through scrutiny committee process including reporting annually to the Mayor and Cabinet on progress. A public update is published once a year setting out what has been done in that year and updating a clear set of actions going forward. Detailed commentary is provided to aid decision makers in judging whether stage of completion is sufficient and each is assessed as either: ‘Achieved’, ‘Not Achieved’ or ‘Ongoing’ as well as being RAG rated. 66% are ‘Achieved’ and 71% ‘Green’ rated at the end of 2022/23 which is deemed to be positive performance to date.

Alongside reporting on progress against this plan the Council also produces annual carbon emissions reports on the current level and source of carbon emissions to monitor this. It is noted that these currently show council-wide only emissions, with the ambition to ultimately report on borough-wide emissions as well and therefore demonstrate a commitment to tackling climate change on a wider scale. This alongside membership of UK100 “Net Zero Local Leadership Pledge offers future opportunities to work with partner to impact climate change on a larger scale than Lewisham.

The Council’s Corporate Plan 2022-26 identifies the climate emergency, formalising this as a council priority, the Council’s budget, KPI monitoring and risk management are all centred around achieving these priorities and so this does put climate change at the forefront of the Council's objectives.

In 2022/23 Internal Audit undertook a review on the Council’s Air Quality Action Plan 2022-27 with the aim is to assess whether the Council had appropriate arrangements in place to monitor, report and deliver the plan. The review was given Limited Assurance rating reporting that air quality monitoring data is incorrectly or inadequately reported to senior management and members for action. 9 actions were classed as important and 3 as routine. All were agreed in principle at the exit meeting in April 2023. Although this rating is behind where the Council would wish to be this is one element of a much larger climate change strategy and so is not indicative of failing in said strategy.

Overall, due to the comprehensive actions in place, the Council has adequate arrangements to ensure that it monitors and complies with any legislative changes relating to climate change/net zero.

Financial governance

Budget Setting and Monitoring

The approach to setting the budget has remained largely consistent with the prior year. The process began immediately following the 2022/23 year end with the update to the Medium Term Financial Strategy, informed by the outturn position, presented to members for scrutiny in June 2022. As quarterly budget monitoring continued, and informed all stages of the budget, the Council developed its proposed budget reductions for 2023/24 in December 2022, with the aim of producing a balanced budget and reducing the medium term financial gap within the updated MTFS. These proposals, plus the provisional Local Government Settlement were used to develop the draft budget for 2023/24, this was finalised and recommended for approval by Mayor and Cabinet 8 February 23 before approval by Full Council 1 March 2023. It is clear that the process follows multiple stages and there is the opportunity for input and challenge at each stage from members via multiple committees (including scrutiny), officers, service users and directorates at each stage.

As the Council uses the 'roll forward' approach to budget setting the budget assumptions are initially based on those made in the prior year, which are then reviewed to ensure they remain relevant or updated for new trends/changes present within the organisation (i.e. reducing business rate core team) or external factors (i.e. cost of living crisis or rising inflation). Where relevant trends are used to determine key assumptions. The quarterly budget monitoring process then provides the opportunity to update these assumptions should this be required as new information becomes available.

As required under the CIPFA Financial Management Code of Practice, the Council must demonstrate how its budget is aligned to its corporate priorities. Therefore the Council includes a detailed appendix to its budget report where the proposed budget is allocated against its corporate priorities, as set out in the Corporate Strategy, and therefore explicitly meets the CIPFA requirement. This clearly demonstrates how much money the Council is spending on each priority, we would not expect there to be an equal allocation as services have different numbers of users, unit costs and other drivers of this allocation. The allocation is adaptable and the Council refine this alongside the CIPFA Code of Practice requirements more generally as the activities in support of the new Corporate Strategy evolve and develop.

Throughout the year, the Finance team has worked closely with services to identify unavoidable pressures, additional demand and exceptional expenditure. Services were asked to provide mitigating actions through reducing costs, increasing income or managing down demand. Where services were unable to mitigate the pressures, these pressures were submitted to Council's Executive Management Team (EMT) for consideration and corporate funding. It was accepted and understood by EMT that increasing the pressures to be funded directly increased the resultant budget gap and the savings target for next year's budget. As such, EMT collectively agreed on a lower savings target and that a number of risks would be managed by services directly.

The MTFS makes use of "optimistic" and "pessimistic" scenarios, as well as the assumed main case, on a line by line basis. This is beneficial to members in making information future decisions as they are able to understand the underlying risk being faced and can therefore make judgements as to whether additional risks can be tolerated. Sensitivity analysis also takes place on an informal basis by finance to ensure that the financial impact of small movements in key assumptions is well understood in developing the budget and MTFS. As such the budget setting process is deemed to be robust.

Ambitions to move to a manager self-service approach to budget forecasts were hampered due to recruitment challenges to the Council's Systems Accountant position, alongside a number of significant challenges experienced by the team during 2022/23. Although it is unlikely the Council will be able to move towards this approach during 2023/24, ongoing discussions are being held with the Council's software provider to discuss potential system adaptations during next financial year. No issues have been noted in relation to the level of engagement between services, finance and members despite the delays in this change of approach.

Financial performance continues to be presented on a quarterly basis to Mayor & Cabinet and remains sufficient based on the risk profile of 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

We would expect budget monitoring to be presented to decision makers within 1-2 months the period being reviewed to ensure that information is up to date, allowing for reliable decisions to be based upon it. For the most part time frame is adhered to, 2 months being the time-lag observed, with the exception of the year-end outturn position which was presented 3 months after year-end. This has not had a negative impact on decision making as budget monitoring takes place monthly between the finance team and services informally, and the budget monitoring and outturn information is reviewed by EMT and the Public Accounts Select Committee prior to being received by Mayor and Cabinet, therefore there is a detailed level of scrutiny with multiple layers within the 1-2 month time frame.

The monitoring of financial performance against budget, and the forecast outturn, is presented at individual directorate level at each meeting. The reporting also includes capital and Housing Revenue Account (HRA) performance to ensure members have a full suite of performance information, across all elements of the Council's operations, with which to make decisions. The reporting includes extensive commentary to explain the reasons behind the performance within each directorate, pinpointing the drivers at individual service level where relevant, and therefore ensuring that members are well-informed of the causal factors behind the financial position.

© 2023 Grant Thornton UK LLP.

Financial governance (continued)

The commentary within the budget monitoring focusses on those sub-services where there are overspends and includes greater detail weighted towards those that are most significant in value, such as Children's Social Care. This is appropriate so as not to overwhelm decision makers with information on all services and allows them to focus their discussion on those services where more significant input is required to generate an improved financial position. In the prior year we observed commentary was focused on the causes of financial under-performance, with limited information on actions being taken to address these casual factors. We raised a recommendation encouraging a shift in the narrative towards the forward look and actions to be taken to respond. Reporting in relation to risk within the budget monitoring has been updated to include actions being taken to control and mitigate these, whether quantified or unquantified, as a direct response to this recommendation.

Capital Monitoring

The Capital and Region Contract Delivery Board are responsible for approving and reporting on each project the Council undertakes, reporting includes metrics detailing the time and cost of project delivery. At the end of each project a project closure report is produced which allows lessons to be learned for future capital projects and is an element of good practice. The Board signs this report off to ensure they are consistently produced for each project.

Formal monitoring of the capital programme, in totality, is undertaken quarterly. Capital monitoring statements are completed by budget holders providing information on progress to date and identified slippage. Regeneration boards also monitor large projects, as an added layer of scrutiny for more complex projects, accounting for the most significant expenditure in the programme. This is an added layer of protection for public money on arguably riskier schemes and represents robust governance arrangements.

Monitoring of the Capital Programme is included within the budget monitoring reporting that is reviewed by Mayor and Cabinet every quarter. Once a budget has been set for a capital project, if amendments are proposed, they must be approved Mayor and Cabinet. This has been put in place as a route to controlling overspends.

The programme was refreshed in full in July 2022, to ensure that it remained affordable and realistic in its expected delivery. The General Fund Capital Programme spend is £33.8m or 70% compared to a revised budget of £48.1m (agreed in March 2023) and the HRA Capital Programme spend is £112.4m or 75% compared to a revised budget of £150.5m (agreed in March 2023). Therefore, whilst the Council has not overspent, due to the measures in place, it also risks not being able to fully meet its objectives by under-delivering on projects which benefit residents. The unspent budget is largely due to delays, with the budget transferred into 2023/24, therefore projects have not been cancelled and benefits are still expected to deliver, albeit later than anticipated. The Council has also had to cancel the modular build project in 2023/24 (see 3E's section) which will result in the cost of the project to date being written off. A full reprofiling exercise is currently underway to ensure that the assumptions within the programme are appropriate, particularly in relation to phasing, in order to address the observed under-delivery and recently cancelled project.

The Capital Programme was developed for 2023/24 to 2026/27 alongside the MTFS to ensure that the revenue impact of capital decisions can be considered at the same time, ensuring that the programme is affordable in the medium term within the Council's anticipated budget. Key risks to the Capital programme are outlined within these proposals and are considered when both monitoring existing schemes, considering new schemes or if schemes should require termination.

A topical issue impacting the sector is the use of reinforced autoclaved aerated concrete (RAAC) in public buildings which has seen partial failures of buildings occurring, predominantly across schools and hospitals. To date Lewisham have identified one school impacted which makes use of the material in two small areas, these have been taken out of action with no impact on teaching. To date no further issues have been noted in the Council's estate and surveys remain ongoing. As such this is not expected to have a material impact on the capital programme based on available information, however the Council should be vigilant to this prospect.

Treasury Management

The Treasury Management Strategy determines how the Council will manage its cash, borrowings and investments in order to meet its objectives and fund its capital programme whilst reaming affordable within the revenue budget each year. The strategy is updated annually as part of the budget setting process, the Council has not made any material changes to the strategy since the prior year and it remains prudent in its level of risk. There are no internal or external factors we are aware of that would lead us to expect any significant changes to the Council's approach to treasury management.

The Council manages its treasury activity within it risk appetite by therefore placing several limits on borrowing such as interest rate exposures, amount of time borrowing can be taken out for, limits on long term borrowing amounts, total operational boundary and authorised limits. Simultaneously the Council's investment priorities are security first, liquidity second, and return last. Therefore it is effectively balancing risk and reward with this approach in order to act cautiously with public funds. The Council has a credit worthiness policy to support its investment approach which has stringent credit criteria, time limits and monetary limits applying to institutions or investment vehicles, which again limits risk exposure.

The Council's treasury advisers have indicated that they expect investment returns to remain high during 2023/24, rates are expected to fall in 2024/25 as the inflation rate is falling. In light of these predictions for high returns and the uncertainty in the markets the Council plans to continue to invest in fixed term deposits of 3 to 12 month duration, which is deemed to be appropriate based on expert advice and maximises the returns based on current information.

© 2023 Grant Thornton UK LLP.

Financial governance (continued)

While rates are higher the Council is considering investing in longer term instruments at these fixed rates. The Council has already noted that it will assess, with support from its advisors, other investments for 2-3 years to benefit from these rate of return.

For 2023/24 the Council has set its operational borrowing limit at £607.6m and analysis demonstrates that the borrowing requirements for the capital programme are fully affordable within this. The Council did not breach its Prudential Indicators in 2022/23 and there is no indication of this in the 2023/24 strategy. The Council sets limits in terms of its borrowing such that fixed rate instruments are encouraged, an upper limit of 100% of debt can be from this source, whilst riskier variable rates are not relied upon with the upper limit set at 15%. This seeks to reduce the exposure the Council faces, particularly given the the more recent trend of rising interest rates.

The Council's external debt as at 31 March 2023, gross borrowing plus long term liabilities, was expected to be £464.34m. Per the accounts it is less than this at £406.5m. The majority of the Council's borrowing is at fixed rates with the £92m with the Public Works Loans Board (PWLB) and £120m of LOBO loans at nominal value as at 31 March 2023. £83m of these are fixed rates and £37m have a stepped rate, therefore exposing the Council to some risk of variable rates. £35m will be in their call period in 2023/24 and have a break clause at every biannual interest payment date, £5m have a break clause every three years, and £80m every five years. In the current interest rate environment, the Council feel it is unlikely that the lenders will exercise their options to request early repayment of these LOBOs. In the event that the lender exercises the option to change the rate or terms of the loans within their call period, the Council will consider the terms being provided and also the option of repayment of the loan without penalty. The Council works with their treasury advisoers to formulate a view on interest rates in order to aid in developing their treasury strategy with regards to interest rate exposure and the constitution of their portfolio.

Mayor and Cabinet receive information on treasury performance twice a year via the Treasury Management Strategy, which includes performance data, and a mid-year performance report each October. This frequency is in line with other councils and is reflective of the low risk associated with treasury activity at the Council. The Council has substantial cash balances at £94m cash and cash equivalents and £218m of short term investments, all of which could be realised quickly should they be required. These are strong balances and it is clear the Council has sufficient cash available with which to support its day to day provision of services as this is greater than the full net expenditure requirement for 23/24 budget.

The latest performance information at January 23 confirms that the Council's portfolio performance is ahead of the overall benchmarking group, as well as a wider group of 22 London boroughs, using information available via the Council's membership of a treasury benchmarking group.

The Treasury Management Strategy for 2023/24 incorporates the capital plans of the Council, which for 2023/24 are £193m and reduce to £166m and £105m in the two following years. The Council plans to fund the majority of this with prudential borrowing of £108m in 23/24 and reducing in the latter years, the remainder being financed from Capital Reserves and Grants. This demonstrates a desire to reduce reliance on borrowing in the medium term and is sufficiently diversified.

The Council's borrowing need is calculated using the CFR (Capital Financing Requirement), which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. The Council in 2023/24, and beyond, plans to keep an under-borrowed position, therefore is looking to only borrow as the need arises to limit exposure to credit and interest rate risks, this is prudent treasury management ensuring that the Council is not over exposed unnecessarily. The borrowing position is below both the operational boundary and the authroised limit and therefore does provide some headroom to borrow more should this be required, however the CFR is greater than both of these and therefore the Council is aware that must utilise other sources of funding such as grants. Cash supporting the Council's reserves, balances and cash flow has been used as an alternative funding measure, and as noted the Council has substantial cash balanced built up over a period of time to facilitate this. In the current economic climate this strategy is considered prudent while investment returns are low and counterparty risk remains an issue to be considered by the Council.

Pension Fund

Lewisham is the administering authority for the Lewisham Pension Fund, which is part of the national Local Government Pension Scheme (LGPS). The Council have both a Pensions Board and a Pensions Investment Committee to assist members in making decisions in relation to the pension fund, together they ensure that relevant information and assurances can be provided in relation to the Fund.

The constitution of the Pension Board consists of 2 employer representatives, and 2 scheme member representatives, all of them appointed in accordance with the Pension Board detailed Terms of Reference. Terms were reviewed and approved by the Board in March 23 and therefore are considered up to date.

The purpose of the Pension Board is to ensure the Council is complying with relevant legislation in it's administration of the fund and that there is efficient and effective governance arrangements in place. Ahead of the 2022/23 year clear workplan for the Board was set which committed to quarterly meetings and specific reports to ensure that the Board was effective in its duties. Meetings of the Board were observed as being fairly sporadic in the prior year, with a meeting held in October 2020 and then not again until March 22, and so the Board did not apply the same rigour in carrying out its role as we might expect. This has improved in 2022/23, with 6 meetings held between June 22 and September 23, and therefore there is an appropriate level of oversight taking place and evidence of adherence to the formalized workplan.

The Pensions Investment Committee (PIC) is an additional layer of assurance which mitigates some of the risk of the Pensions Bard not meeting regularly in 2021/22, as they met 5 times in that year.

© 2023 Grant Thornton UK LLP.

Financial governance (continued)

This group regularly discussed fund performance, ways to ensure low carbon equities were considered in the investment portfolio and general updates. These items are sufficient for members to understand the performance of the fund and make decisions accordingly.

The Board review a training log and a breach log to ensure that the Council are effectively managing the fund and there is no evidence of breaches in 2022/23 observed from this information.

Formal responsibility for investment management of the Pension Fund is delegated to the Council's Pensions Investment Committee (PIC), which appoints and monitors external investment managers. Each investment manager has an individual performance target and benchmark tailored to balance the risk and return appropriate to the element of the Fund they manage. Managers are answerable to the Committee and The Treasury and Pensions Team within Strategic Finance at the Council, who look after the day to day running of the fund.

The Pensions Investment Committee meets quarterly, deemed sufficient based on the risk profile of the fund, and its focus is on discussion of investment performance reports, the risk register and other notable reports such as the results of the triennial valuation, investment strategy statement and funding strategy statements as well as opportunities to meet fund managers associated with investments where they can be questioned and held to account. We believe the agenda's for this committee to be effective and the direct contact with the actuary and individual fund managers represents strong monitoring arrangements.

We have noted in 2023/24 that there have been ad-hoc reports related to Climate Risk Analysis and the Net Zero Pathway and therefore demonstrates that the Council is also ensuring that its pension fund investments reflect its own priorities. The investment managers also consider the Committee's views on environmental, social and governance (ESG) factors. Details of the ESG factors are contained in the Investment Strategy Statement and published online.

The fund has a statement of investment beliefs which includes guidance on what investments the fund is allowed to make, aligned to the Council and fund priorities. This includes guidelines which encourage investment in climate change principles. Climate is clearly a key principle in the investment of the fund, their investment strategy is focused on diversifying the fund away from fossil fuels to low-carbon mandates.

Hymans Robertson continue to be the Council actuary and report on fund performance to the committee. The Council worked with the actuary to prepare a Funding Strategy Statement which is effective from 1 April 2023, having been approved by the Pension Investment Committee in February 2023. This sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to the strategy and so ensures that the Council is taking a forward look when managing the fund.

At the end of 2022/23 the fund's assets returned 3.6% over the quarter, slightly less than the benchmark return of 3.9%. However the fund continues to perform broadly in line with its strategic benchmark over longer periods, with relative outperformance over the 1- and 3-year periods, and just behind its benchmark performance of 7.2% per annum since inception. This is suggestive of good performance and therefore would not impact the Council's ability to deliver its services. The annualised return of the Fund's investments over the last 12 months was -4.61%, which does demonstrate recovery in rates of return by the last quarter of the year. This annual performance was still 0.21% above the benchmark return. Over the last five years, the Fund's absolute return on its investments is 7.29%, which is approximately 0.66% above the benchmark return of 6.64%, therefore demonstrating this improved performance on a longer term basis.

The Pension Fund's value decreased over the year by £95m (5%), £1.750bn to £1.655bn. The Fund value of the fund decreased due to the changes in global markets mainly caused by the war in Ukraine. The quarterly reporting does demonstrate that the value of the Fund's assets increased by c. £57.2m over the final quarter of the financial year and are now £1,653.9m and this has continued in 2023/24, demonstrating recovery suggestive of effective management of the fund. The fund is not exposed to Russian markets, which would have been considered a potential risk in year, and operates a diversified portfolio that is aimed to ensure they are not overly exposed to any one area.

Overall, for 2022/23 the Actuarial Present Value of Promised Retirement Benefits is a net liability position of £141m. This is the value of assets when compared with what the fund expects to pay out, and is essentially a net loss position. This is a prediction, which has improved from a prior year predicted £620m deficit position. In context the current funding position has improved from 90% to 97% fully funded and is therefore a positive trajectory.

The net liability prediction is based on a significant number of complex assumptions including the discount rate, salary increases, mortality rates and expected returns on fund assets. Given this is present value calculation based on assumptions, rather than actuals, there has been an improvement from prior year and currently there are sufficient assets to fund liabilities arrangements are adequate. There was an increase in assets in the prior year and as such currently this is seen as a one year impact of market conditions and will be reviewed again next year.

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 evidence since the prior year, therefore demonstrating a positive direction of travel.

© 2023 Grant Thornton UK LLP.

Improvement recommendations – Financial Sustainability

Improvement Recommendation 1	Increasing demand for homelessness related services, such as temporary accommodation, is increasing across the sector and therefore the Council may benefit from learning from other organisations who have also successfully responded to the demand side challenge via prevention strategies
Summary findings	The largest overspends in 2022/23 relate to childrens' social care, education services and strategic housing which are all demand led services and common sources of pressure across the sector, as such not evidence of a lack of control specifically attributable to the Council. We have noted extensive actions being taken to respond to the issues within education and childrens' social care and the cost drivers are well understood. The strategic housing pressure is a result of increasing demand for temporary accommodation, with demand outweighing supply the Council are being forced to fund expensive private provision to meet its statutory duties. The service is actively seeking to reduce numbers accommodated and is set to embark on the purchase of up to 300 new units for this type of accommodation. This will potentially reduce the numbers accommodated in expensive nightly paid accommodation. This seeks to address both the cost and supply challenges associated with the service but does not impact demand.
Management comments	XXX

Improvement Recommendation 2	The Council should keep risks under review within the budget to ensure they are complete, and fully mitigated, incorporating emerging risks into financial plans as they arise
Summary findings	The budget includes consideration of risks which have not been funded, due to insufficient funding to do so, and/or are difficult to quantify with any certainty. Officers continue to undertake work to fully assess and monitor these risks, have contingency included within the budget to respond as they emerge and have sufficient reserves. The risks identified are in line with sector wide risks that apply to Lewisham. Emerging pressures noted from the 2022/23 outturn and 2023/24 budget monitoring to date are childrens' social care and temporary accommodation within the strategic housing service, the Council are also in the process of bringing Lewisham Homes Ltd services back in house, we would suggest each of these areas carry potential unanticipated costs and therefore are additional risks to the budget.
Management comments	XXX

© 2023 Grant Thornton UK LLP.

Improvement recommendations – Financial Sustainability

Improvement Recommendation 3	Given the track record of under-delivery against target the Council should review the approach to savings identification process by moving away from the roll forward approach to savings each year, towards a full refresh of the savings programme. Given the trend of savings under delivery each year consideration should be given to including an optimism bias adjustment to ensure it is realistic in its requirements.
Summary findings	In 2022/23, there were £25.8m of savings to be delivered included in the budget in order to breakeven, including £5.6m as yet undelivered from 2020/21, £8.4m undelivered from 2021/22 and £11.8m new savings for 2022/23. Savings are continually rolled forwards into each year's budget, with many undelivered for several years.
Management comments	XXX

Improvement Recommendation 4	To maximise the benefit of the 'deep dive' exercise into the pressures within childrens' social care the Council should seek to develop a detailed action plan which is monitored sufficiently regularly with the support of service heads and members. The Council should extend the deep dive process to cover other services with significant overspends.
Summary findings	The Council has a detailed understanding of the causal factors associated with the pressures in Childrens Social Care and undertook a deep dive into the challenges, which was presented to members via the Public Accounts Select Committee in March 23. This information is useful to help members and officers in understanding the drivers of cost and demand, but no action plan to address the findings has been observed. The deep dive approach to investigating the causal factors of the pressures in Childrens Social Care has been effective in clearly identifying where the Council should target its actions to address continued overspend and savings under-delivery. In 2022/23 and 2023/24 to date the Council has also experience significant overspends in Adults Social Care, Education Services and Strategic Housing for which deep dives have not yet taken place.
Management comments	XXX

© 2023 Grant Thornton UK LLP.

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
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

Risk Management

The Council reviewed and refreshed its Risk Management Strategy in 2022/23. The Strategy, covering 2023-27, was approved by the Council's Executive Management Team in late November 2022 and subsequently presented to the Audit Panel in March 2023. As such it has not been in place for the majority of the 2022/23 year, but has been applied to the quarter 4 reporting processes. The first three quarters of the year risk was managed under the previous strategy .

We would expect policies of this nature to be refreshed within a 3-5 year period, although the wholesale refresh was delayed it did take place by 2022 and the strategy in its old format 2017-22 edition was last seen by the Panel in June 2021. As such this refresh has accordingly met this recommended timeframe required to ensure it remains fit for purpose.

The strategy itself is clear, concise and guides users through all elements of the process we would expect to see (identification, evaluation, response, monitoring and reporting), with useful examples at each stage. To guide staff in identifying and evaluating risks a web form has been developed which is used for collecting information about new risks being identified. This standardized approach ensures consistency across services and ensures efficiency when collating information, this is an area of good practice that successfully streamlines the process which the strategy update sets out to achieve.

Alongside the strategy the Council has acquired a new bespoke Risk Management software, this was installed in May 2023 and seeks to digitise the process. This again achieves standardisation of approach and recording of risks across the Council and adds to the efficiency of the process. We note that the updated strategy was brought into effect prior to the acquisition of the software, the software is underpinned by the framework in the strategy, however there is no additional guidance (or link to additional guidance) within the Risk Management Strategy related to applying the strategy in practical terms within the new tool (Recommendation 5).

The Council's Audit Panel (now the Audit and Risk Committee) continues to receive quarterly reports on strategic risk management from the Executive Management Team, including the Risk Register for review. The format of the register is very much informed by the strategy and the new software and therefore there has been a notable change in the reporting for the final quarter in 2022/23 Although this position is very much an interim style, as the new software is 'built out' to maximise its full capability and functionality. While the software is being updated the Council are reporting risks in the previous tabular format as well as a summary from the software itself. During the transition period this ensures that members have an understanding of the changes and do not lose any information upon transition.

Risks continue to use a well established and understood. A 5x5 matrix scoring system is utilized and risks are RAG rated. However the new framework, and software, includes a broader range of risk categories compared to the previous strategy (which included high, medium and low risk only). This ensures that specific approaches can be applied based on a more accurate reflection of the nature of each risk, this is particularly important for HILL (High Impact Low Likelihood) which, unlike other risk, are typically large-scale risks managed through business continuity and resilience approaches as opposed to risk reduction techniques. Other improvements as a result of the new strategy and software include assigning each risk to a specific individual to increase accountability and including a specific response approach aligned to the 4T's within the new framework (tolerate, transfer, treat, terminate). Details of controls and assurances and linking risks directly to corporate priorities is not yet complete, nor does the tool include the direction of travel for each risk. These features would give more oversight and transparency to members with a brief statement explaining the reasons why risks is increasing, decreasing or remaining static This would be best practice and as such the Council may consider these areas as it continually reviews and updates the new tool. (Recommendation 5)

© 2023 Grant Thornton UK LLP.

Governance (continued)

From quarter 4 the Council include, alongside the risk register, details of changes in risks since the last report. This is useful to demonstrate to decision makers the impact that external factors, or Council implemented responses . Therefore, it would be beneficial to consistently include this information in reports going forwards (Recommendation 5).

As at year end 28 risks were identified on the corporate risk register. We would expect the number of risks, that is deemed manageable but also reflective of the size of a Council such as Lewisham, is between 15 and 30 based on our experience and that we see at other similar Councils, therefore being within this threshold the number of risks are manageable. All risks are strategic in nature, rather than operational, therefore ensuring the register is effective in its aim of managing risks to achieving the corporate objectives of the Council. Overall, the risks included pertain to the objectives and services the Councill provides. Two potential emerging risks that we would expect to see are the risks associated with the in-house transfer of Lewisham Homes and the impact of the imminently expected Ofsted re-inspection of Childrens Services. The Council has acknowledged the Lewisham Homes risk within the quarter 4 reporting and this is expected to be included in a later iteration, we would encourage this ongoing review of risks to continue to consider areas such as Ofsted (Recommendation 5).

The new strategy formalises that the Council will commission, at least once during this strategy's lifespan, an independent internal review on its operational effectiveness, as well as actively seeking feedback from users, ranging from operational staff managing and identifying risks to Senior Leaders. This will ensure that the strategy can continually evolve, this and remains fit for purpose.

Internal Audit's opinion, for 2022/23, is that the risk management arrangements at the Council for the year ended are effective and provide satisfactory assurance. In 2021/22 time was taken to develop the Council's risk approach to include its reporting, content and integration with wider decision making. Whilst there has been considerable progress during the year as a result of the new strategy, further development is needed. We have observed this taking place consistently with changes to the reporting of risks and use of the software since Internal Audit's year end reporting was produced.

Internal Audit

The audit service continues to be delivered by an in-house team of auditors complemented by support from PWC and TIAA. Despite changes in senior leadership and the Head of Internal Audit being relatively new to the Council, in post since January 2022, we have observed a good level of communication between Internal Audit and those officers. The Council is well supported by their Internal Audit function.

Internal Audit develop their plan ahead of each financial year based on risk assessment and discussion with officers and members to ensure it has sufficient coverage of the Council's operations and high-risk services. The 2022/23 Internal Audit Plan was approved by the Audit Panel in March 22 and accounted for a total of 770 days across 31 audits.

Of the 31 audits 15 related to individual schools as opposed to council-wide services. There are no significant Ofsted concerns regarding schools associated with the Council, there is a good track record of Internal Audit ratings from these audits and there are no significant risks in the risk register related to schools as a whole or individually. As such it could suggested that the Plan is not sufficiently targeted based on risk and therefore there is opportunity for the Audit and Risk Committee to liaise with Internal Audit to ensure a diversified Plan going forwards (Recommendation 5).

The Internal Audit team experienced capacity issues in the prior year and as such entered 2022/23 with a backlog of assurance reviews to complete. At the end of 2022/23 the Internal Audit team was able to clear this backlog and completed 19 2021/22 reviews alongside 31 2022/23 engagements. At the year end there were 8 reviews which had not yet been reported, however fieldwork for each had been completed and a draft report provided to management for comment, as such these do not represent any gaps in assurance. The Internal Audit team did remove 15 reviews from the original plan, 6 due to lack of capacity in the Internal Audit team and others due to service restructures or delays by individual schools being reviewed. The removals are across a range of services and therefore do not represent gaps in assurance as there is sufficient coverage across the Council.

Overall, of the 50 reviews completed in 22/23 3 received 'limited' or 'no' assurance (6%), fewer than the prior year when there were 4 'limited' assurance reviews, and therefore does not suggest a pervasive control issue across the Council. The reports with these ratings cover air quality, contract management and IT asset management with no common themes suggesting systemic issues.

The removed audit reviews and 'limited' and 'no' assurance reports have not had a negative impact on the overall Head of Internal Audit opinion, which remains positive in its assurances of the control environment of the Council.

The annual Internal Audit report confirms that all internal audit work was taken in accordance with the Public Sector Internal Audit Standards. The required External Quality Assessment was carried out in 2021/22. This review is required every 5 years by the standards and so the Council has been compliant in undertaking this in the expected timeline. The assessment concluded that Lewisham generally conforms to the Standards. This is the top of a three-point scale that also includes 'partially conforms' and 'does not conform' as possible outcomes.

© 2023 Grant Thornton UK LLP.

Governance (continued)

Noting that external assessments are only required every fifth year, in 2022/23 Internal Audit supported the conclusion by undertaking a self-assessment that was reported to the Audit Panel during 2022/23. This confirmed that the service has addressed all of the improvement matters noted in the 2021/22 external assessment.

Compliance and Complaints

The Council's Constitution and Codes of Conduct set out the standards of behaviour expected of officers and members in undertaking their roles. Discussion with the Council's Monitoring Officer confirmed that, while there are instances of trivial non-compliance each year, there have been no significant instances in 2022/23 which have required escalation nor cause concern over the Council's governance.

The Council has a Standards Committee in place who met twice during 2022/23, with the overriding purpose of monitoring whether the expected behaviors of Council members and employees are being complied with. In 2022/23 this has predominantly been achieved by the monitoring of complaints at Council-wide level. Three meetings of this committee were cancelled in 2022/23 and this is reflective of the low level, and risk, as a result of complaints levels at the Council. The committee has two sub-committees to consider specific cases in detail as they arise and therefore supports the overarching committee between its meetings, therefore mitigating any risk associated of less frequent meetings taken place. It is clear that upholding appropriate standards of behaviour is taken seriously by the Council.

The Council has clear and transparent processes in place for the lodging and monitoring of complaints. Where standards are not felt to be being complied with it is important that the Council respond in a robust and timely manner to ensure these do not escalate and have a wider impact on the ability to meet objectives. An annual complains report is presented to Mayor and Cabinet, following review by the Executive Management Team and the Standards Committee, to ensure that those at the top-tier of the organisation are sighted and can take action should this be required. The report sets out complaints and casework performance in 2022/23 as well as the measures being put in place to improve complaint handling, performance and service delivery. The report for 2022/23 shows that performance was at 74% for complaints answered within 10 days against a target of 90% and has improved by 1% compared to last year despite a significant increase of complaints by 20%. It is also worth noting that 98% of all complaints received were completed in 11 days (just 1 day outside of the Council's target of 10 days) and therefore is not indicative of serious challenges in this area. The Council has recognised improvements that could be made and have begun to progress these. This has included ensuring that the Corporate Complaints team meet on a monthly basis with several teams that either have relatively high volume of complaints, and/or poor performance. The Council has invested in complaints software iCasework to generate efficiencies and developing Complaints Handling Induction courses.

Complaints can be escalated to the Local Government and Social Care Ombudsman where they are considered to be serious in nature or have not been dealt with effectively by the Council.

A total of 31 investigations for the period between 1 April 2022 to 31 March 2023 were undertaken by the Ombudsman, of which 68% were upheld, meaning action was required to resolve the complaints following investigation that was not initially identified as required or addressed by the Council's own processes. This compared favorably to 77% average nationally, but only 14% of those cases had satisfactory remedies already issued by the Council. In 100% of cases the Ombudsman were satisfied the Council had successfully implemented recommendations following their work. The number of cases is small, however if the number of upheld decisions continues to rise, as there has been small increases year on year, the Council may need to consider improving its own internal processes to respond (Recommendation 6).

The Ombudsman's work resulted in a total of 16 compliance outcomes but have raised concerns via a letter to the Council that in 4/16 of the cases recommendations were not completed within the agreed timescales, delays in apologies being provided to complainants and lack of explanations for all cases where there were delays. This was the third time the Ombudsman had to raise such concerns with the Council. Therefore the Council should review its arrangements for liaising with the Ombudsman to ensure responses are on time and to consider how it might reduce delays in complying with agreed recommendations (Recommendation 6).

Ongoing training is a key mechanism by which the Council ensures that quality and standards in decision making are upheld. Mandatory training compliance is considered to be a priority under the current Chief Executive, which is necessary to increase due to staff turnover that has taken place over recent years. An area of good practice noted is internally developed software which builds in a 'countdown' for each piece of mandatory training, if the target date is not complied with the user is locked out of all systems. This measure is aimed at improving training culture with immediate effect.

On 27 March 23, the Council was served with an Enforcement Notice by the ICO (Information Commissioner's Office) for its poor performance in responding to Freedom of Information requests (FOIs) within the statutory time limit of 20 working days, specifically relating to the backlog of requests that has built up. The enforcement order required the Council to publish an action plan within 35 days and close the backlog of FOIs within six months. We confirmed an action plan has been agreed with the ICO and all teams are working together to clear the historical backlog. The action plan is also published on the Council's website. Confirmation from the Monitoring officer indicated that the Council has complied with the ICO's FOI Enforcement Notice and as a result of the actions taken to date there are no historic FOI responses outstanding. An updated improvement plan will be published on the Council's website imminently and will continue to be reviewed by the Monitoring Officer who, in turn, updates members informally, regularly, and updates Mayor & Cabinet periodically.

© 2023 Grant Thornton UK LLP.

Governance (continued)

The Council has an Anti-Fraud and Corruption Team (A-FACT) dedicated to the deterrence, prevention, detection and investigation of any fraud or irregularities within Council proceedings. The A-FACT investigates all fraud and irregularity reported to the Council. Their annual report for 2022/23 highlights the fraud activity undertaken in the year. A reduction in Covid-related workload has allowed for resumption of more preventative and governance work, including fraud awareness training and developing a revised counter fraud policy. The percentage of new cases of special investigations increased by 67% in 2022/23 (67 cases in 21/22 to 112 in 22/23). The team have reviewed the increase and confirmed that there is no strong evidence that this represents an increase in the underlying level or vulnerability to fraud. This is viewed as an expected rebound to 'routine' referrals in line with a more general return to regular business. Given the significant staff base at the Council this is not considered to be a high number of cases. At the same the Council has seen a reduction in heavy response workload allowing the service to look more long-term to strengthen the Council's counter fraud response, including expanding the capacity of the team.

Policies, Constitution and Committees

It is important that the Council keep key policies under review, we would expect this to take place every 3-5 years, in order that they remain fit for purpose within the evolving internal and external environment. In 21/22 we confirmed that a revised Whistleblowing Policy was in development pending the completion of internal consultation and approval. In 2022/23 it has been reviewed by Senior Officers at the Assurance Board and presented to the internal staff Change Network on 26 October 2022. However the Council still retains the October 2017 policy per its website which is outdated and outside of our expected timeframe for review. We are aware the updates have taken place and therefore the Council will need to ensure the latest version is made available and easily accessible to all staff to ensure policy is followed consistently (Recommendation 7).

The Council reviewed and updated its Anti-Fraud and Corruption Policy in September 2023, this is updated on an annual basis, and approved by the Audit Panel/Audit and Risk Committee. The policy has clear roles and responsibilities and sets out the Councils commitment to embedding an established anti-fraud culture. The policy sets out the standards and requirements from all Members, Officers, Agency Workers, Consultants and Contractors and therefore ensures responding to fraud risk is the responsibility of all people involved in Council services.

The Constitution underpins all decision making at the Council and is a key governance tool. The Constitution is kept under review regularly by the Council and was last revised in May 2023, pending completion of a full review which is ongoing. Constitutional changes were reported to Full Council in March 23 for their approval and therefore the rules set out within it have been agreed by the leaders of the Council. The changes made predominantly relate to a strengthening of the committee structure including changing the name of the Audit Panel to the Audit and Risk Committee and expanding its remit, reducing 4 planning committees to 2 and simplifying the Overview and Scrutiny structure from a three tier to a two tier system. This has achieved efficiency through streamlining whilst maintaining a strong governance structure. There is an ongoing Scrutiny Task & Finish Group looking at the effectiveness of the Council's scrutiny arrangements to ensure that as the changes embed they remain effective,.

In October 2022 the Redmond Review was published, which is CIPFA's published guidance on the role of Audit Committees in local authorities. The Audit Panel's March meeting included a report on this guidance and its implications for the role and work of Lewisham's Audit Panel (now Audit and Risk Committee). Overall, based on self assessment, the Council committee 'materially conforms' with CIPFA's expectations. However the opportunity has been taken to review arrangements despite this level of compliance and in line with the guidance the committee agreed that 3 independent members would be appropriate, 2 as the minimum, as they can be very useful in this area and that recruitment should be a priority. This is evidence of the Council's ongoing drive to improve its governance arrangements.

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.

© 2023 Grant Thornton UK LLP.

Improvement recommendations – Governance

Improvement Recommendation 5	The Council should continue its iterative improvement journey in relation to risk management by specifically: • including additional guidance (or link to additional guidance) within the Risk Management Strategy to assist users in applying the strategy in practical terms within the new software tool the Council has implemented • linking risks to corporate objectives, completing the approach to responding to each risk within the risk register. Ensuring gaps in information are completed, there is a direction of travel of each risk and ensuring completeness of controls and assurances information • consistently including details of changes in risks since the prior period within each report to Audit and Risk Committee to allow members to understand the impact actions are having on the risk profile of the Council • ongoing review of the risk register to ensure completeness of risks, ensuring emerging risks are captured. • liaising with Internal Audit to ensure that their Audit Plan is sufficiently diversified and reflective of risks in the risk register
Summary findings	The Council reviewed and refreshed its Risk Management Strategy in 2022/23 and the Strategy, covering 2023-27, was approved by the Council's Executive Management Team in late November 2022 and subsequently presented to the Audit Panel in March 23. This was implemented before the Council acquired its new risk management software in May 2023. Updates have been made to the format of the risk register to include responses aligned to the 4T's within the new framework (tolerate, transfer, treat, terminate). Details of controls and assurances and linking risks directly to corporate priorities is not yet complete, nor does the tool include the direction of travel for each risk. This would give more oversight and transparency to members with a brief statement explaining the reasons why risks is increasing, decreasing or remaining static While the new risk management software is being updated the Council are reporting risks in the previous tabular format as well as a summary from the software itself, the summary format does not present all of the key information members require with which to understand and make decisions based on risk. From quarter 4 the Council included, alongside the risk register, details of changes in risks since the last report. This is useful to demonstrate to decision makers the impact external factors, or Council implemented responses are having. Two potential emerging risks that we may expect to see are the risks associated with the in-house transfer of Lewisham Homes and the impact of the imminently expected Ofsted re-inspection of Childrens Services. The Council has acknowledged the Lewisham Homes risk within the quarter 4 reporting and this is expected to be included in a later iteration Of the 31 internal audits 15 related to individual schools as opposed to council-wide services. There are no significant Ofsted concerns regarding schools associated with the Council, there is a good track record of Internal Audit ratings from these audits and there are no significant risks in the risk register related to schools as a whole or individually.
Management comments	XXX

Improvement recommendations – Governance

Improvement Recommendation 6	The Council should ensure that internal processes to respond to complaints are effective therefore limiting the need for input by the Local Government and Social Care Ombudsman. Where complaints are raised to the Ombudsman the Council should review its arrangements for liaising with them to ensure responses to their recommendations are timely.
Summary findings	A total of 31 investigations for complaints in the period between 1 April 2022 to 31 March 2023 were undertaken by the Ombudsman, of which 68% were upheld, meaning action was required to resolve the complaints following investigation that was not initially identified as required or addressed by the Council's own processes. The Ombudsman's work resulted in a total of 16 compliance outcomes. They have raised concerns via a letter to the Council that in 4/16 of the cases recommendations were not completed within the agreed timescales, delays in apologies being provided to complainants and lack of explanations for all cases where there were delays. This was the third time the Ombudsman had to raise such concerns with the Council. The Council should review its arrangements for liaising with the Ombudsman to ensure responses are on time and comply with the agreed recommendations
Management comments	XXX

Improvement Recommendation 7	The Council should ensure that the most up to date versions of key policies and procedures, such as the Whistleblowing Policy, are available and easily accessible to staff to ensure they can be followed consistently across the Council.
Summary findings	In 21/22 we confirmed that a revised Whistleblowing Policy was in development pending the completion of internal consultation and approval. In 2022/23 it has been reviewed by Senior Officers at the Assurance Board and presented to the internal staff Change Network on 26 October 2022. However the Council still retains the October 2017 policy per its website which is outdated and outside of our expected timeframe for review.
Management comments	XXX

© 2023 Grant Thornton UK LLP.

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.

Performance Reporting

Since the prior year the Council has updated the way it monitors its financial performance. The Council has moved away from reliance on Key Performance Indicator (KPI) reports to members outside of Mayor and Cabinet meetings and Directorate Management Reports also monitored at informal directorate meetings and Executive Management Team Meetings. This approach was not presenting performance in a transparent way and focused predominantly on high-rated risks. In 2022/23 the Council developed a centralised online dashboard for monitoring these metrics and this is made available publicly via the website in order to address the transparency issue. The data on the website is made available through the Power Bi data platform which makes the data more visually immersive for the public to view and is easy to understand. There are 69 KPIs overall and each is linked directly to a priority in the Corporate Strategy and therefore means the Council are proactively monitoring the actions and targets that would impact whether they can meet their key objectives. At the time of undertaking our review in October 2023 quarter 3 data for performance was being reported externally and therefore a 10 month time-lag, within this some information for individual targets is also outdated and from 202/21 and 2021/22 in some instances. This reduces the benefit of the information as decisions cannot be reliably be based on out of date information. Quarter 4 data has been collated and presented to Mayor and Cabinet in September 2023, it was approved and expected to be uploaded into the public dashboard imminently. Although the time-lag is reducing this still limits the benefit of the data to decision makers. The tool is very much a work in progress and is being updated iteratively. The Council should maximize the benefit the tool can provide by including a target to gauge performance against (there are currently gaps) and a clear owner for each KPI could be identified to aid accountability(Recommendation 8).

The fact that the KPI reporting from the dashboard has been made available to Mayor and Cabinet prior to publication on the website is a direct response to our prior year findings and should be continued to allow effective scrutiny of the performance in a formal setting.

There is also benefits to be realized by presenting this information at the same timeline as financial reporting so that the impact of financial decisions on operational performance, and vice versa, can be considered.

No significant changes are expected to the tool in 2023/24, however it is kept under review with members, a further metric related to debt exposure has been proposed informally as well as a commitment to reduce the time lag in the data.

Individual directorates continue to have their own performance management metrics, which are reported in the Directorate Management Reports internally, but these are not necessarily linked to corporate priorities as the Council-wide KPIs are. We would recommend that a process takes place to ensure that directorate metrics are consistent with and work towards the Council-wide priorities and KPIs. Discussion with officers have confirmed that the directorate KPIs will now be mapped to corporate strategy and developed into an annual report. This work has started and will compliment the KPI reporting at Council level (Recommendation 8).

The Corporate Strategy, spanning 2022-26, aims to entirely revamp the way performance is measured and managed. As evidenced, action are well underway to achieve this. Future performance monitoring will culminate in an annual report to Full Council, where progress against external and internal priorities will be reported on. Therefore it is clear that the Council is on an iterative improvement journey in relation to non-financial reporting.

© 2023 Grant Thornton UK LLP.

Improving economy, efficiency and effectiveness (continued)

Benchmarking Analysis

Using Grant Thornton internal benchmarking tools, which makes use of the annual RA data (budget) return forms sent by each council nationally to Department for Levelling Up, Homes and Communities (DLUHC), we have compared the budget of Council services with all other London Boroughs. This is a tool designed to highlight high level potential opportunities for savings where budgets are comparatively high, with the caveat that the information does not account for variances between boroughs in demographics or differences in the categorisation and completion of the underlying RA returns by different councils. This analysis has identified those services with very high comparative budgets.

Service	Total Cost 22/23 £000	Units (per head/per dwelling)	Unit Costs £	Unit Cost Score
Primary schools	186,723	21,703	8,603.56	Very High
Secondary schools	108,204	9,790	11,052.50	Very High
Special schools and alternative provision	60,796	52,273	1,1,118.38	Very High

Lewisham is relatively well funded in terms of DSG allocation, with the exception of the High Needs Block where Lewisham, as with most other Councils in both London and nationally is facing pressures. The data is showing higher than average levels of per pupil funding, which (with the exception of the High Needs Block) has in part been the driver for the majority of Lewisham schools being able to set a balanced budget and not operate with a deficit. The overall schools position is a surplus of £19m, down from a surplus of £26m in 2021/22. However, there are still some schools running a deficit position within this. At the end of 2022/23 21 schools are now in a deficit position. The dedicated Schools Finance Team continues to work closely with Schools to support where this is possible. All schools in deficits are required to progress a deficit recovery plan where one is not already in place.

Within the Council's year end outturn reporting and budget monitoring for 2023/24 to date it is clear that the cost and demand pressures in this service are well known, which are predominantly related to pupils within the High Needs Block funding. The schools element of the budget has performed on target and continues to do so. However pressures within Education Services are being caused by:

- increased costs and demand in home to school transport for those pupils who are looked after children or have complex needs,
- direct additional costs for increasing numbers of children with complex needs as a result of the additional ratios of staff to pupils required
- the need for more Education Psychologists due to the continued increasing numbers of education, health and care plans (EHCP's).

As noted within Financial Sustainability, as part of the response to the DSG deficit, the Education Service is currently working towards a mitigation plan with the Department for Education (DfE) as part of the Delivering Better Value support package, to focus on reducing costs whilst maintaining service quality. This is in development, there is an expected time lag before the actions are fully embedded and able to impact the current high costs. The Council should consider ensuring there is regular oversight of the action plan, as a stand lone item or via inclusion within the newly developed KPI reporting, to ensure that the embedding of actions can be progressed (Recommendation 9).

As measured by the Council's own KPIs for quarter 4 of 2022/23, quality of education related services is good with school related metrics performing well or close to target level. The metrics demonstrate that overall pupils have high levels of attendance, achieve the grades expected and are not excluded in significant numbers. There is the caveat that some of this data is outdated due to Department for Education publishing delays and therefore we are unaware of the impact of the current high unit cost on all metrics for 2022/23.

© 2023 Grant Thornton UK LLP.

Improving economy, efficiency and effectiveness (continued)

Currently, the KPIs focus on education outcomes, which are important, however the cost drivers are not considered. Given the overspends and DSG deficit the Council should consider, when reviewing their KPI reporting, including metrics which focus on these cost drivers so that specific actions to target them can be discussed (Recommendation 9).

Service Quality

The Council's own performance monitoring is a key mechanism by which the council can judge the overall quality and effectiveness of its services. At the end of 2022/23 13 of the Council's 71 KPI's were rated as 'working to improve' meaning they were behind target performance, this is around 18% and shows the majority of metrics are performing positively as a result of council actions. The below target metrics are across a range of issues such as Freedom of Information (FOI) and Subject Access Request (SAR) response rates, agency staff usage, numbers of homes being delivered, ethnic diversity, flu vaccinations and HIV status statistics and therefore not indicative of any systemic quality problems as these are diverse in nature. The reporting includes the actions being taken in all cases and as such demonstrates immediate response by the Council.

The metric which would be considered the furthest behind target is number of net additional homes delivered which is at 599 compared to a target of 1,385 (56.7% below target). The Council are progressing home construction, with a capital programme weighted towards projects in this area, and are bringing Lewisham Homes back in house to ensure greater control over delivery. In addition, New Homes England statistics confirm that house building delays and supply issues caused by the pandemic started to recover from 21/22, as such the Council should start to see an improvement in the metric from its own actions and external factors. The data in the KPI reporting is from 2021/22 and therefore the impact is yet to be seen.

Internal Audit provide individual reports on services for which they have undertaken reviews, as well as an overall year end opinion on the effectiveness of controls at the Council, informed by its individual reviews. The lowest level of assurance that Internal Audit provide is a rating of 'no assurance' and is indicative of controls that are not operating effectively, they have the potential to impact the standard of service/s being provided. Internal Audit gave rated IT asset management processes within this 'no assurance bracket for 2022/23. The review highlighted that it found failures due to a lack of documentation and varying application of processes at each stage of the IT process from procurement, management and disposal of these assets.

11 actions were put in place, classed as high severity, and an action plan has been developed, assigned responsible owners. Internal Audit were informed between the draft report being issued to management and it being finalized that a number of actions had already been completed and therefore shows a timely response to the concerns raised. The findings relate to one area of the Council's estate, therefore the issues are not deemed to be pervasive, nor are physical IT assets a material element of the Council's substantial estate. This is supported by the fact that the year end opinion from the Head of Internal Audit is one of positive assurance as quality issues are not more widespread from their remaining reviews. Internal Audit plan to follow up the actions, and their impact.

External Reviews

Ofsted undertook a focused visit of Lewisham's Childrens Services in 2021. This was a follow up from a 2019 inspection of the service which 'required improvement to be rated good'. The re-visit noted improved and strengthened services for children in care and noted 5 further improvements.

The Council is expecting a full re-inspection imminently, although this has yet to be announced. The Council have ensured they are prepared for this re-inspection via a detailed self assessment which suggests that the Council are confident that they are now providing good services to children, young people and families. In responding to Ofsted's previous findings the Council have taken a forward looking approach by developing a series of formal strategies including those for addressing workforce issues in the department (Workforce Strategy) and care placement and budget issues (Sufficiency Strategy). Progress of these is monitored via the Corporate Parenting Board. The Council has also taken a retrospective look at the service via a 'deep dive' report taken to the Public Accounts Select Committee in March 23 which used detailed analysis to identify key cost drivers of the service with aim of taking targeted action going forwards to address these specifically.

© 2023 Grant Thornton UK LLP.

Improving economy, efficiency and effectiveness (continued)

Ofsted's input is not limited to the Childrens' service at the Council but also spans schools under the Council's control and any partnerships it is part of that deliver services to children. The Council ensure that they are working towards high standards of childrens' care via these routes and specifically measure themselves against the expectations of Ofsted between inspections. The Council's KPIs within the performance dashboard include those in relation to the rating of schools against Ofsted principles. In quarter 4 of 2022/23 the Council has assessed that 97% of schools in the borough would be rated good or outstanding against a target of 96%. This ranks the borough 9th out of 162 authorities and demonstrates strong performance in this area.

In November 2022, a joint targeted unannounced inspection of Lewisham's Safeguarding Children Partnership (LSCP) which is a Council related partnership. The review was carried out by inspectors from Ofsted, the Care Quality Commission (CQC) and His Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). The review found that the partnership's arrangements were well established and are becoming increasingly effective. It recognised the significant efforts that services have made to improve whilst working together to respond to the needs of children and families in the borough. It stated that "The partners know their services well and have an accurate understanding of the collective local and national challenges they face." This is deemed to be a positive reflection of the services being provided, of which the Council contributes to. The report was presented to the Children and Young People Select Committee of the Council in June 2023 and the committee were informed of the 8 key areas of improvements that were found across the partner agencies. As a result an agreed action plan was developed with the partner agencies to drive improvement.

The Local Authority's own actions will be monitored to ensure quality and timeliness, monthly in the Director's Management meeting and responsibility for the overarching partnership actions is with the Local Safeguarding Children's Partnership (LSCP) Executive which meets bi-monthly. A review of the action plan indicates that all are all areas are on track with 3/26 areas having already been completed and therefore progress to date is positive.

The Council took part in the Local Government Association (LGA) Peer Review which was reported in Nov 2021, we recommended in the prior year that developing an action plan from the findings of the review would be beneficial to monitor success of the response to the recommendations, with oversight from a relevant committee or Mayor and Cabinet. There is evidence that an action plan has been developed and is published publicly on the Council website. Each action within this plan has been allocated a Director or Executive Director to lead and so has accountability built into it.

.

The Council has recorded progress against this action plan, and this has been shared with senior staff and Members internally, as well as with the LGA Peer Challenge Team. The LGA Peer Challenge Team re-visited Lewisham Council in January 2023, for a review of the progress made against the action plan. In their final feedback to the Council they stated "that the Council continues to be reflective and open to feedback" and "the Council has taken the peer team's recommendations from the full report seriously and made real progress in a number of areas. Therefore the Council has used the review positively to improve arrangements.

Modular Homes

The Council launched the Building for Lewisham (BfL) programme in January 2020 building on the previous New Homes Program and Lewisham Homes were the Council's direct delivery partner building new Council homes. The BfL programme adopted a mixture of construction methods to deliver the new homes. Based on the success of the award-winning temporary PLACE/Ladywell scheme the Council considered whether additional homes could be delivered through modern methods of construction (MMC), namely homes being built in a factory and then transported and assembled on site. Projects at Home Park in Lower Sydenham and Edward Street in Deptford were identified as appropriate sites for this type of build and a project for 65 homes via this method was initiated at an expected total project cost of £34m (including on costs and construction costs).

Following a competitive process, Caledonian Modular Ltd (CML) were selected as the main contractor for both projects in August 2020. Officers and members understood the contractor to be well established within the sector, and experts in this type of building method as the largest supplier of such homes in the UK. There was also evidence that the company had been used by other public sector bodies such a Her Majesty's Prisons (HMP) and the Ministry of Justice (MOJ).

© 2023 Grant Thornton UK LLP.

Improving economy, efficiency and effectiveness (continued)

Work began on the project immediately, however in March 2022, when the project was 90% complete, CML announced they had been placed into administration and informed the Council works would not continue. Prior to the award of the contract the Council had undertaken due diligence arrangements including credit checks, but the information had not highlighted any issues at that stage. The company has cited issues at the sub-contractor level which impacted on the completion of the project and escalating costs. This suggests that the Council's due diligence arrangements should be reviewed and strengthened to ensure they capture information in relation to sub-contractors as well as the main contractor. In addition, ongoing financial and credit checks would have been beneficial in this instance to enable to the Council to take action at an earlier stage of the contract, with the caveat that the ability to do so would be dependent on break clauses and penalties in the contract (Recommendation 10).

High inflation and interest rates have also been highlighted as a causal factor and recent government statistics show there were over 2,000 company insolvencies in March 2023 – a 16% rise on the prior year, this is an issue that has impacted the sector as a whole and is not Lewisham specific.

At the approval stage of the contract risks were identified and considered by members, this included the risk of contractor insolvency. It has been noted from the evidence and discussion with officers that the nature of the project, including modern building method with a relatively new market, was considered riskier than a traditional home building approach. In response to this the Council included a performance bond within the contract which could be reclaimed in this instance. The value of the bond is £2.8m, which is approximately 8% of the total project cost. This seems comparatively low to the total build cost, particularly for a project noted as carrying a higher risk. As such the Council may seek to review its procurement and contract guidance to ensure that performance bonds are set at an appropriate level in each contract, reflective of the risk being entered into (Recommendation 10).

Following CML being placed into administration the Council have developed an action plan and undertaken regular briefings with members, as such the issue and ongoing work to respond has been well communicated to decision makers. Theses communications resulted in an options appraisal exercise which was presented to members in July 23. This explored options to terminate the project and write off costs to date, proceed with the project under the company taking over CML operations or proceed with a new contractor following another tender exercise.

The appraisal included cost benefit analysis, which confirmed that all would result in a loss or additional cost to the Council but officers recommended the option to terminate the project which was the option of least financial loss. Although all options have a negative impact it is felt that the option selected protects further use of public funding.

31 social homes on the Home Park site were to be funded within the HRA and 34 social/temporary accommodation homes on the Edward Street site within the General Fund, as such the termination of this project will impact both. The written off costs will be funded from general fund reserves and the HRA funding set aside for the project at its outset. The Council, as noted previously, does have a strong reserve position and can support this without significant detriment to services. However, this would not be sustainable, as reserves are finite in their use.

The Council is now seeking, in terminating the project, to explore methods of cost recovery which involve selling or repurposing the homes in their current state. To date this has had limited success, and the Council is incurring costs of storage in the current financial year. As such the Council has set a cut-off date at which it will dispose of the homes rather than continue to incur these costs. The final design of the modular homes included bespoke elements as approved by members, however these bespoke design choices have made selling the homes challenging as there is little to no market for them. We would recommend, to avoid future issues caused by bespoke designs, that the Council consider ways it can update it existing contract and procurement rules to deter decisions away from this type of designs where there is a risk these may hinder the Council's ability to recover costs should the project fail (Recommendation 10).

The Council has been working on a solution to the issues generated, as a result of this specific project, throughout 2022/23 and into 2023/24. Although there are no further modular build projects in the capital programme there are similarities in the processes of any capital, procurement and contract management exercise and therefore lessons could be learned, with the aim of not repeating any unavoidable factors that lead to the failure of this project. At the end of each project a project closure report is produced which allows lessons to be learned for future capital projects and is an element of good practice. We expect that this will be undertaken for this project once it is deemed complete, which will be when the homes are sold, repurposed or destroyed. This is expected by the end of 2023.

In summary, the Council approved a project that was riskier than its traditional housing development programme at a time when the economy was challenging, as such the risk of contractor insolvency was higher than usual. Although this was recognised the Council and planned for this was not sufficient. The inclusion of bespoke elements to the design also added additional risk associated with the exit strategy, now being observed.

© 2023 Grant Thornton UK LLP.

Improving economy, efficiency and effectiveness (continued)

Due to the Council's strong reserves position to respond to the financial impact of the project failure, and the fact that there is no evidence to date of other such projects in the Council's portfolio there does not seem to be a systemic issue. However, the failure and the inability to maximise cost recovery of the scheme should serve as a warning to strengthen the consideration of risk within capital, contract and procurement decision making (Recommendation 10).

Lewisham Homes Transfer

Lewisham Council formally took over responsibility for managing and maintaining more than 19,000 homes across the borough, following the transfer of staff and services from Lewisham Homes, its wholly owned subsidiary, from the 1st October 2023. Initial options appraisal was considered by Mayor and Cabinet in July 2022, followed by extensive consultation with tenants between August and October 2022, before the final decision was approved in December 2022. Appropriate options appraisal, member approval and public consultation for the users of the service has been observed prior to bringing the service back. This included a cost benefit analysis of the options which showed that returning the service to the Council to be directly managed will save the HRA money after two years the savings would facilitate improvements to the housing services provided.

Prior to the decision being approved it had been noted, via a recent stock condition survey, that 2,400 homes within the Council's stock portfolio have been identified as suffering from some degree of damp or disrepair and therefore highlighting challenges by the company in fulfilling its role in maintaining properties to an appropriate quality. The aim of bringing housing management back into the Council is to improve it for residents by providing a more joined-up service, linking housing and other Council services that residents rely on. This was an outcome of the change in Government regulation following the Grenfell fire tragedy for Housing Arms Length Management Organisations (ALMOs) with new regulations in force which the Council is legally responsible for fulfilling. As such, there is a clear rationale for the decision to bring the company services back in house linked to achieving improvements in quality, cost savings and ensuring legal compliance.

With regards to the issues of damp and disrepair a Repairs Implementation Plan was developed between the Council and Lewisham Homes prior to transfer where the company committed to undertake a target of 1,000 MOT reviews to identify work needing completion to improve the condition of the housing stock. This was previously been monitored and measured by Lewisham Homes, but upon transition the plan remained in place. We have not observed this being reviewed or challenged via the Council governance arrangements due to the focus on transitional arrangements.

It is expected that the newly established Housing Transformation Board will revisit the plan to monitor performance shortly after the full transfer of services has been achieved. This should be a priority to ensure that quality issues that the plan is seeking to address do not 'fall through the cracks'. (Recommendation 11).

The Council has ensured that it is well prepared for the transfer of services and set up required governance arrangements in advance, immediately following the approval of the decision in December 2022. This has included setting up the new Place and Housing directorate and ensuring it includes the remit of Lewisham Homes activities. Budget setting and monitoring is undertaken at directorate level internally and this ensures that the Council's existing financial governance arrangements cover the newly transferred services. there is evidence of this directorate being monitored via budget monitoring reports at period 2 and 4 to date and our review of budget monitoring arrangements has shown they are effective. As such the Council already has greater oversight and control over financial performance of Lewisham Homes' activities compared to prior year where it relied on the company to provide this.

In terms of non-financial performance the Council has the newly developed Corporate Performance Report which includes KPIs under the Quality Housing priority. KPIs under this priority focus on housing delivery, planning applications and temporary accommodation numbers less focus on quality related metrics. Due to the fact that the Council has inherited challenges with damp and disrepair to address upon transfer we might expect KPIs to be related to housing quality metrics, in addition to the current performance information (Recommendation 11).

Communication is a vital element in ensuring a smooth transition of staff and services, and an area the Council has demonstrated extensive and robust arrangements in relation to, both pre-transition, during and post-transition. The level, frequency and engagement observed in the process has allowed for multiple opportunities for challenge and scrutiny of the process. Pre-transition there has been clear involvement and updates to tenants, members via Mayor and Cabinet and Full Council and the Housing Select Committee. During transition arrangements were managed by the newly created Housing Future Programme Board, in place from March 2023, to ensure that there are the right resources and plans in place to enable the transfer to move at the required place and meet the pre-agreed milestones for completion, as a phased approach has been taken. A clear governance structure of the Board was developed to ensure that resources were appropriately allocated to specific workstreams required to effectively bring different services and associated staff over from the company.

© 2023 Grant Thornton UK LLP.

Improving economy, efficiency and effectiveness (continued)

In order for the Council to be able to absorb the housing services functions Mayor and Cabinet approved the establishment of up to five new Council posts to help deliver the project, as a result of the work of the Board. This Board has been supported by a steering group which has been able to feedback on challenges and successes to be incorporated at each phase of the transition.

The Board have effectively managed the transition via a specific risk register, a highlight report on RAG rated progress of each workstream and an actions and decisions log. By June 2023 none of the 6 workstreams were rated as red and all workstreams related to finance and communications were rated green as completed. The reporting, overall, shows that the transfer of Finance ahead of other services was successful and therefore appropriate to use as guidance for the remainder of transferring services.

The Housing Transformation Board (HTB) has been in place since the integration took place on 1st October and ensures there is a clear split of responsibilities, between transition and integration, and therefore has a different remit from the Housing Futures Board. The HTB had its first meeting upon completion of the transfer on 12th October and so the arrangements that were set up were able to be mobilised and effective immediately. It will be the responsibility for this Board collate performance information from housing directors of the service and feedback to the chair (Chief Executive) to ensure that there is sufficient focus on this area of operations, a direct response to the challenges faced previously.

The Council has demonstrated commitment to consistently identifying and applying lessons learned throughout the process. It planned a phased approach to the transfer with the Development Service being the first team to transfer in February 2023, followed by Finance in May 2023 and the remainder of teams by October 2023. This has allowed various touch points with which to assess success and make iterative adaptations as required, as well as using the newly transferred team to support those transferring at a later date and assisting with the embedding of Council processes. Training has been provided before, during and after transferring which has been well supported by a specific communication work strand within HR to ensure the transition is managed seamlessly. The Housing Futures Programme Board has been key in managing the process by receiving project reports from each project manager responsible for each workstream every two weeks, these included lesson learned. In addition, following the transition of the Finance team in May 2023 a formal exercise was undertaken to capture lesson learned in totality.

Overall there is evidence of strong governance structures and adequate resources in place to manage this transition. Implementation plans were developed and tested and lessons learned exercise helped shaped the next phase. The transformation phase is in its infancy and therefore there is limited evidence to assess how well the new arrangements have embedded, this will be a focus for 2023/24.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring resources are managed effectively and do not represent a weakness in current arrangements. However the collapse of a housing contractor working with the Council should serve as a warning to strengthen procurement and contract management processes, particularly in considering potential risk, to avoid future situations of this nature. The Council's 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.

© 2023 Grant Thornton UK LLP.

Improvement recommendations – Improving economy, efficiency and effectiveness

Improvement Recommendation 8	The Council continue its ongoing commitment to improving non-financial performance reporting via the Corporate Performance Report and dashboard by: • where within the Council's control' ensuring each KPI has a target to gauge performance against • reducing the time lag in information being reported to ensure reliable decisions can be made using the information • ensuring a clear owner for each KPI is identified to aid accountability where performance is below target • continuing to present the information formally to members and consider doing so alongside financial reporting so that decisions in relation to non-financial performance can the financial impact assessed concurrently • ensuring consistency of directorate level metrics with the council wide priorities and KPIs to ensure directorate level activity contributes to council wide improvement and objectives as opposed to working in silo
Summary findings	In 2022/23 the Council has developed a centralised online dashboard for monitoring non-financial performance metrics and this is made available publicly via the website, after oversight and approval by members. The tool is in continual development and is expected to evolve, as such the current version is not a finished product and provides the opportunity for further refinement. At the time of undertaking our review in October 2023 quarter 3 data for performance was being reported externally and therefore a 10 month time-lag, within this some information for individual targets is also outdated and from 202/21 and 2021/22 in some instances. Quarter 4 data has been collated and presented to Mayor and Cabinet in September 2023, it was approved and expected to be uploaded into the public dashboard imminently. Although the time-lag is reducing this still limits the benefit of the data to decision makers. Observation of the tool has also noted that not all metrics include a target level or a clear owner for each KPI which could aid accountability. Individual directorates continue to have their own performance management metrics, which are reported in the Directorate Management Reports internally, but these are not necessarily linked to corporate priorities as the Council-wide KPIs are.
Management comments	XXX

© 2023 Grant Thornton UK LLP.

Improvement recommendations – Improving economy, efficiency and effectiveness

Improvement Recommendation 9	The Council should ensure there is regular oversight by members of the mitigation plan, currently in development, to respond to the overspends in Education Services and the DSG deficit, as a stand lone item or via inclusion within the newly developed KPI reporting, to ensure that the embedding of actions can be progressed. In order to ensure KPI reporting within the Corporate Performance Report is most effective in monitoring the cost drivers within Education Services the Council should consider including metrics focus on these as well as education outcomes.
Summary findings	The Education Service is currently working towards a mitigation plan with the Department for Education (DfE) as part of the Delivering Better Value support package, to focus on reducing costs whilst maintaining service quality. This is in development and time lag is expected before the actions are fully embedded and able to impact the current high costs effectively. Currently, the KPIs within the Corporate Performance Report focus on education outcomes, which are important, however the cost drivers are not considered.
Management comments	XXX

Improvement recommendations – Improving economy, efficiency and effectiveness

Improvement Recommendation 10	The recent failure of the modular home project at Home Park and Edward Street the Council should serve as a warning for the Council to strengthen the consideration of risk within capital, contract and procurement decision making, specifically the Council should: • Review and strengthen due diligence arrangements at the initial stages of contract procurement to ensure they capture information in relation to key sub-contractors as well as the main contractor. • Ensure ongoing financial and credit checks take place at key points in the contract to enable the Council to take action at an earlier stage of the contract should there be evidence of financial difficulty of a contractor, with the caveat that the ability to do so would be dependent on break clauses and penalties in the contract. • Review procurement and contract guidance to ensure that performance bonds, or other forms of security, penalty or remediation, are set at an appropriate level in each contract, reflective of the risk being entered into. • Review its existing contract and procurement procedures such that the consideration of bespoke designs is made alongside the wider considerations of contingencies in the event that the project were to fail and the Council need to act to recover costs/remediate.
Summary findings	Following a competitive process, Caledonian Modular Ltd (CML) were selected as the main contractor for the modular build projects at Home Park and Edward Street in August 2020. The homes used modern construction methods and were seen to carry a higher level of risk than traditional builds due to this being a developing market. Members approved the plans based on due diligence, including credit checks, and evidence of similar builds under the same company at other public sector bodies. The decision was made, and the project initiated, during a time of economic downturn and financial challenge nationally as a result of the pandemic. As such the contractor was placed into administration in March 2022 due to the impact of rising interest rates, inflation and sub-contractor issues. The Council has undertaken option appraisal to determine the next steps for the project, which was 90% complete when the failure occurred. Analysis and consultation with officers has determined the preferred course of action to be to terminate the project, write off the costs to date and recover costs, where possible. To date recovering costs has been unsuccessful as the Council has been unable to sell or repurpose the homes due to their bespoke design. The Council is currently storing the homes, at a cost, and therefore should they be unsuccessful in selling or repurposing the homes they will be disposed of by the end of 2023 to limit the ongoing additional costs to the Council.
Management comments	XXX

© 2023 Grant Thornton UK LLP.

Improvement recommendations – Improving economy, efficiency and effectiveness

Improvement Recommendation 11	Upon the transfer back in-house of housing management and maintenance services from Lewisham Homes Ltd the Council should ensure that it has adequate arrangements in place to respond to and monitor issues that it will be inheriting upon transfer, relating to the 2,400 homes considered to have damp and disrepair issues. Specifically the Council will need to ensure that the legacy Repairs Implementation Plan is effectively monitored through relevant governance arrangements, such as the Housing Transformation Board, and that the Council's KPI's within the Corporate Performance Report and Dashboard are reviewed to include metrics relevant to required repairs.
Summary findings	Prior to the decision to transfer Lewisham Homes services in-house being approved it had been noted, via a recent stock condition survey, that 2,400 homes within the Council's stock portfolio have been identified as suffering from some degree of damp or disrepair. A Repairs Implementation Plan was developed between the Council and Lewisham Homes prior to transfer where the company committed to undertake a target of 1,000 MOT reviews to identify work needing completion to improve the condition of the housing stock. This was previously been monitored and measured by Lewisham Homes but upon transition the plan remained in place but we have not observed this being reviewed or challenged via the Council governance arrangements due to the focus on transitional arrangements. It is expected that the newly established Housing Transformation Board will revisit the plan to monitor performance shortly after the full transfer of services has been achieved.
Management comments	XXX

Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
1	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.	20/21	Improvement	Budget monitoring includes an appendix on savings which includes each scheme RAG rated with comments. Section 5 of each report also focuses on savings by directorate and service, this includes detailed narrative, focussed on under delivering services, as to the causal factors. There is limited information on actions taken and the Director of Finance plans to revise the reporting of savings in 2023/24 to focus more on actions taken on the savings schemes in year and move away from a focus on prior year savings undelivered.	Yes	No
2	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.	20/21	Improvement	This has been undertaken in July 23 as confirmed in the Period 2 and Period 4 23/24 budget monitoring.	Yes	No

Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
3	Financial Sustainability - In the continued efforts to improve savings performance against target the Council should explore ways to: 1. encourage focused discussion by the Public Accounts Select Committee (PASC) on specifically under delivering savings schemes in 22/23 2. undertake public consultation on the savings programme 3. learn from successfully delivered schemes via post implementation reviews. 4. 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 5. focus on identifying recurring savings which can impact each of the 4 years of the medium-term financial plan	21/22	Improvement	1. March 2023 paper to PASC focussed on Childrens' Social Care via a deep dive exercise into the causes of overspends and savings under-delivery. This deep dive approach is a positive improvement that the Council may wish to extend to Adult Social Care and Temporary Accommodation, which are the most significantly overspending areas in 2022/23 2. There is still limited saving specific information included within the public consultation on the budget, however the format is more open in questioning to allow for comments as required. The detailed savings and budget for 2023/24 were submitted for pre-scrutiny in public meetings in December and January before being moved for decision and therefore do provide the opportunity for public questions. More could be done to gain specific feedback on savings proposal. Given the continual roll forward nature of undelivered savings, a new approach which includes service user input may be of benefit. 3. Progress with delivery of savings is included in the monthly monitoring to Executive Management Team (EMT) and quarterly to members. This includes key performance data for cost drivers. The narrative on exceptions in the monitoring is also changing to include an assessment of risk and planned actions but this has yet to be achieved in 2022/23 4. Service planning for 2023/24, which commenced in March and April 23, focusses on relevant benchmarks and performance indicators to track planned actions. This was not achieved in 2022/23. 5. The MTFP for 2023/24 and 2024/25 still include identified savings predominantly for the first year of the MTFP with some in the second, none for the remainder. We are aware from the 2024/25 documentation that, due to the fact that 2024/25 is currently a balanced budget, that attention is now being turned to multi-year savings	Yes	Superseded by recommendations 2 and 3

Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
4	Financial Sustainability - The Council should develop a Workforce Plan or Strategy covering all aspects of the future workforce required for the Council to fulfil 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.	21/22	Improvement	The Service Planning template has been updated and the guidance for managers has been strengthened to include reference to workforce. Strategic HR Business Partners have been meeting with service directors to support this aspect of their planning using workforce metrics aligned to budgetary position/savings targets. This is informal and a step in the right direction. However, a formalised workforce strategy and supporting plan would be beneficial to plan the medium term outlook of the establishment based on planned service delivery and determine that it is affordable, decisions can therefore be made in advance of need in an area that represents one of the largest costs to the Council Discussion with the Chief Executive has also confirmed that the Council, in 2023/24, is aiming to develop a live staff directory which will improve the accuracy of the information held on the people within the organisation, enabling decisions to be made in relation to workforce more reliably.	Yes	No – being addressed in 23/24.
5	Financial Sustainability - 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.	21/22	Improvement	The Council has continued to update the MTFS and this includes planning for 3 scenarios, including a worst case. The budget gap under the main case has improved between 2023/24 MTFS and 2024/25 MTFS which demonstrates the ongoing work to tackle medium term pressures. Risks, quantified and unquantifiable, are included in the budget and monitored via the budget monitoring reports to assess if they are emerging. The Council has not specifically detailed the actions taken against the worst case scenario, but risks to the budget are made clear in the documentation and the actions being taken to respond to them are having the desired impact.	Yes	No

© 2023 Grant Thornton UK LLP.

Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
6	Governance - Overall the Council's governance arrangements are strong and operating consistently in line with Council policies. The Council may wish to explore ways that it can make iterative improvements to demonstrate best practice governance arrangements. These could include: 1. Updating financial monitoring reports to include details of actions being taken on overspending services throughout the year. 2. Ensuring that presentation of financial performance to Mayor and Cabinet is sufficiently regular 3. Undertaking effectiveness reviews of their committees to ensure that they are performing effectively against their terms of reference 4. Incorporating assessments of financial performance into the appraisals of budget holders 5. Investigating ways of increasing feedback response to consultations exercises 6. Ensuring that Members are sighted in the lessons learned from the Financial Software IT Critical Incident.	22/23	Improvement	1. Reporting of risks has improved within the budget monitoring reports to demonstrate actions being taken to control them, whether quantified or unquantified. In addition 'deep dive' work has been done in Childrens' Social Care. This is focussed on causes rather than actions. 2. Performance is presented on a quarterly basis to Mayor and Cabinet and this is deemed sufficient based on common practice in the sector. 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. There is also more informal discussion at Budget Review Meetings between the Director of Finance and Directorate leads, which take place monthly. 3. There is no evidence of these having taken place in 2022/23 4. Staff appraisal forms now include fields for identifying actions being taken and potential improvements that could be made in meeting key objectives. Management agreed to review the guidance to assess the benefit of being more specific on financial management, to supplement the detailed expectations set out in the financial regulations and procedures. The 2023/24 appraisal cycle is therefore going to include fields to capture people management and finance & equalities (where applicable). The appraisal guidance and training will be updated to make clear expectations. Therefore, the recommendation has not been responded to in the 2022/23 year, however this was made in December 2022 therefore allowing for limited time with which to action this in 2022/23.	Partially	To be reviewed again in 2024/25 by incoming auditors

Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
6	Governance recommendation 6 (continued)	22/23	Improvement	5. The Council promotes e-Participation through its online engagement system, which provides a platform for citizens to respond to online consultations, as well as e-Petitions. This ensures easy access to respond to consultations. Each consultation advertised also includes contact details should online consultations not be accessible for residents. Consultations in year cover a range of areas from budget to childrens' services to Borough of Culture exit. Therefore, there are multiple areas and opportunities for people to have their say. There is limited data with which to judge the actual response rates. 6. Per our prior year work the incident occurred in the 2022/23 year, Oracle temporarily removing the service they provided from the 6th May 22. There was ongoing informal communication with members until resolution of the incident in June 2022. However no formal communication, or lessons learned information, has been presented to members via relevant committees in 2022/23 to ensure that similar incidents do not reoccur, therefore the recommendation has not been addressed.		
7	Governance - The Council should continually review its risk management procedures to ensure they remain effective and fit for purpose. This could include: 1. Ensuring that there is a greater level of oversight of the strategic risks impacting the Council by Mayor and Cabinet 2. Updating the format of the strategic risk register 3. Working collaboratively with Internal Audit to ensure that the 2022/23 audit plan is achievable within the time and resource available 4. Tracking progress against the Quality Improvement Plan developed by Internal Audit	21/22	Improvement	The Council has implemented a new Risk Management Strategy for 2023-2027 which has changed the way risks are reported, changes have come into place from quarter 4 and are continuing to be made iteratively, therefore ongoing review is expected. 1. The newly updated strategy does include the provision that there is biannual reporting to the Mayor and Cabinet of the highest risks, this is an additional layer of review compared to prior year. Strategy was taken to Audit Panel in March 23 and therefore was not in place throughout 2022/23, it was initially approved by Executive Management Team in November 22.	Yes	No

© 2023 Grant Thornton UK LLP.

Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
7	Governance recommendation 7 (continued)	22/23	Improvement	2. Quarters 1-3 risk register was presented to the Audit Panel in the old format with quarter 4 using an interim format. The Council has invested in bespoke risk management software which is currently being 'built out' to maximise its benefit to decision makers. In the meantime the Council is presenting both formats of risk register to limit gaps in data as this takes place. We have reviewed the latest risk registers and have made more specific recommendations compared to prior year, but do note improvements in the information and capabilities of the new software. 3. Internal Audit completed 50 reviews in 2022/23, of which 19 related to 2021/22 and effectively cleared the backlog of their unachieved plan from the prior year. 8 reviews were outstanding at the point of releasing the year end Head of Internal Audit Opinion and Annual Report for 2022/23 but all had been released to management in draft form and were awaiting comments, being finalised in June 23. 15 reviews were removed from the plan, 6 due to Internal Audit capacity. However, performance is significantly improved and sufficient assurance available for Internal Audit to provide their year end opinion. 4. No evidence of this being reported as part of progress reports and therefore could still be improved as long as the plan remains in place. However, as noted, improvements have been made in terms if plan delivery and so actions are clearly being taken and having a positive impact.		
8	3E's - 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 directorate KPI reports. The Council would benefit from a Council wide benchmarking strategy as opposed to an ad-hoc approach.	21/22	Improvement	The Council have developed an interactive Power BI dashboard to monitor KPIs linked to corporate priorities. In June 2023 the quarter 3 2022 performance information was published and quarter 4 in September 2023, following approval by Mayor and Cabinet. There is still no benchmarking included within this reporting or dashboard and therefore in later iterations this could be considered.	Partially	To be reviewed again in 2024/25 by incoming auditors

Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
9	3E's - Overall the Council's arrangements for securing economy, effectiveness and efficiency are positive. The Council may wish to explore ways that it can make iterative improvements to demonstrate best practice in these arrangements. These could include: 1. Developing can action plan form 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 finding into existing KPI reporting as those structures are already in place 2. Ensuring that a data policy is finalised as soon as possible. 3. Identifying how the existing governance arrangements can support delivery of the digital programme, once the 2023 Digital Strategy is developed and released. 4. Exploring ways that equal attention could be paid to monitoring the performance of both its key subsidiaries.	21/22	Improvement	1. An action plan has been developed and is published publicly on the Council website. Each action within this plan has been allocated a Director or Executive Director to lead. The Council has recorded progress against this action plan, and this has been shared with senior staff and Members internally, as well as with the LGA Peer Challenge Team. The LGA Peer Challenge Team re-visited Lewisham Council in January 2023, for a review of the progress made against the action plan. In their final feedback to the Council they stated "that the Council continues to be reflective and open to feedback" and "the Council has taken the peer team's recommendations from the full report seriously and made real progress in a number of areas." The final summary letter from the LGA Peer Challenge Team has been published on the Council website for transparency. Progress against the action plan will continue to be monitored. 2. The Council is currently working on a draft Data Policy that seeks to embed the principles of data accuracy, integrity and ownership across the Council; the principle aim being effective use of data to inform better decision making. At present, the Data and Insights team have led a series of data workshops over the last 6/7 weeks to feed into the development of the Data Strategy, working with analysts, directors across the different services across the Council.	Partially	To be reviewed again in 2024/25 by incoming auditors

Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
9	3E's recommendation 9 (continued)	21/22	Improvement	3. The strategy is yet to launch but when launched is the Council's intention that delivery will be reported through the Strategic Change Board, chaired by the Chief Executive which monitors the delivery of key projects across the Council. The IT & Digital Team have already set up a Technical Design Authority (TDA) that reviews, assesses and critically challenges new IT & Digital projects across the Council to ensure the solution proposed is the best approach for the service and the requirements can't be met by existing digital solutions in place. The TDA compromises of Shared Technology Service, leads from Applications, Digital and Information Governance. These have not yet been able to be evidenced as the strategy has not yet launched but the planned approach is deemed to be robust 4. The Council will be insourcing Lewisham Homes, transfer to be complete by 1 October 2023, with some functions being brought back into the Council in advance of that date. The development function was transferred in February 2023, and offers opportunities to reduce duplication of tasks. Lewisham Homes performance monitoring in its current state is superseded as a result and the financial performance will be subsumed into the Council's existing budget and budget monitoring as it becomes part of the Council's functions. In terms of non-financial performance, the newly created KPI dashboard does include KPIs under the Quality Housing priority. Metrics include net additional quality homes provided and temporary accommodation numbers, which are relevant to the services being brought back in house, as such we feel existing arrangements are suitable to ensure ongoing performance review of the service once transferred. Catford Regeneration Partnership performance as a company is not included in the same way as Lewisham Homes but there are Catford specific capital projects included in the capital monitoring and therefore demonstrates the company is providing sufficient information for the Council to monitor progress within their own reporting structure.		

© 2023 Grant Thornton UK LLP.

Opinion on the financial statements

Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We anticipate issuing an unqualified opinion on the Council's financial statements in November 2023.

Audit Findings Report

More detailed findings can be found in our AFR, which will be reported to the Council's Audit and Standards Committee in November 2023.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. 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.

© 2023 Grant Thornton UK LLP.

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.

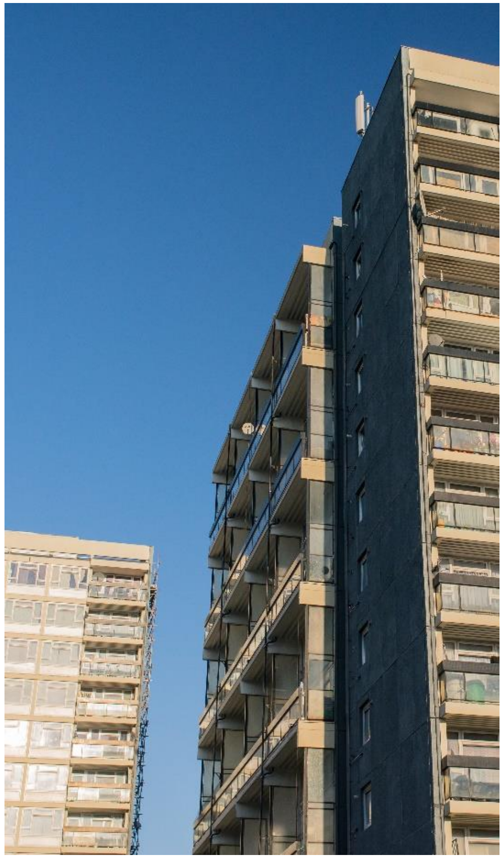
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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



© 2023 Grant Thornton UK LLP.

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(s)
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 the Council's 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

Grant Thornton

© 2023 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk