

# Value for money risk assessment

London Borough of Lewisham

Year end report for the year ended 31 March 2024

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12 December 2024



# Value for money



**Our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.**

Our responsibility is to conclude on significant weaknesses in value for money arrangements.

The main output is a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following page.

## Risk assessment processes

Our responsibility is to assess whether there are any significant weaknesses in the Authority's arrangements to secure value for money. Our risk assessment will consider whether there are any significant risks that the Authority does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Authority has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Authority's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

## Reporting

Our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of previous recommendations.

The Authority will be required to publish the commentary on its website at the same time as publishing its annual report online.

### Financial sustainability

*How the body manages its resources to ensure it can continue to deliver its services.*

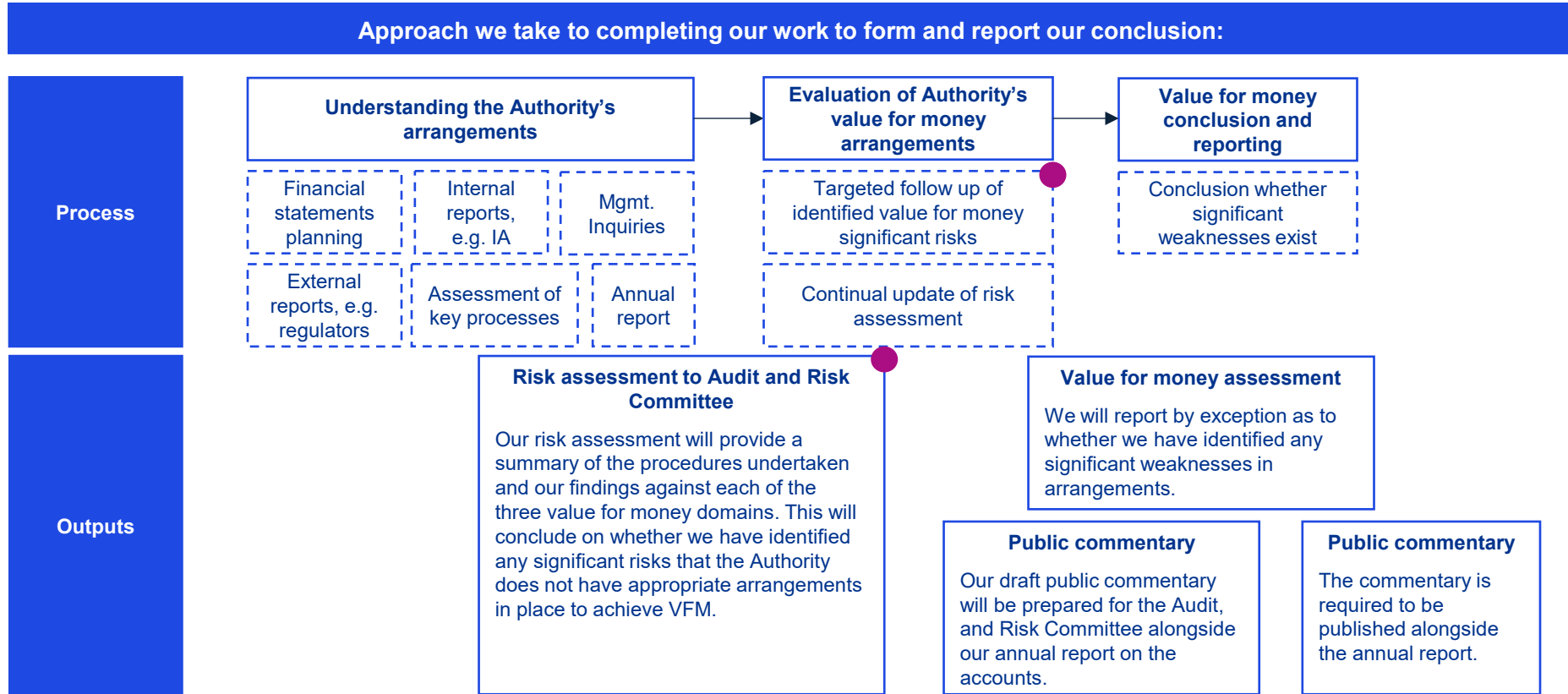
### Improving economy, efficiency and effectiveness

*How the body uses information about its costs and performance to improve the way it manages and delivers its services.*

### Governance

*How the body ensures that it makes informed decisions and properly manages its risks.*

# Value for money



● Our work presently at this stage in our process.

# Value for money



**We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources.**

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor’s Annual Report, which is required to be published on your website alongside your annual report and accounts.

## Commentary on arrangements

As set out in our methodology we have evaluated the design of controls in place for a number of the Authority’s systems, reviewed reports from external organisations and internal audit and performed inquiries of management.

Based on these procedures the table to the right summarises our assessment of whether there is a significant risk that appropriate arrangements are not in place to achieve value for money at the Authority for each of the relevant domains.

## Response to risks of significant weaknesses in arrangements to secure value for money

As noted on the right, we have identified two risks of a significant weakness in the Authority’s arrangements to secure value for money in relation to two domains. We have set out our response to those risks on pages 9 and 10.

Within our Auditor’s Annual Report we will set out our findings from our work to respond to that risk, as well as recommendations (if any) we wish to raise.

## Summary of findings to date

Domain	Risk assessment
Financial sustainability	One significant risk identified
Governance	One significant risk identified
Improving economy, efficiency and effectiveness	No significant risks identified

## Performance improvement observations

As part of our work we may identify Performance Improvement Observations which are suggestions for improvement but not responses to identified significant weaknesses. Any we identify will be set out within our findings report to the Audit and Risk Committee.

# Value for money



## Financial sustainability

### In assessing whether there is a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan.

### Summary of risk assessment

Our risk assessment procedures identified that the Authority has procedures in place to set budgets, identify savings plans, monitor financial performance, and identify and manage risks to financial sustainability.

The Authority has moved away from rolling forward savings plans and changed reporting of legacy savings that are outstanding. The Authority has refreshed its savings programme as a whole in 2023-24 to incorporate all required savings into the medium-term financial strategy and has considered within this whether there is a deliverability risk. Detailed reports on the monitoring of savings plans in the year are taken to Mayor and Cabinet. Of the planned savings in 2023-24 there are two under Children's Social Care totalling £1.25m which were not delivered due to the increase in high cost placements, we note that underperformance in savings is well reported and understood.

We have seen alignment between financial plan and workforce and operational plans, including the increased demand for social care and social housing, as well as improving the quality and timeliness of repairs.

A new Risk Management Strategy was published in March 2023. The Authority's Corporate Risk Register is regularly updated and is presented to Mayor and Cabinet and Audit and Risk Committee regularly, dependant on risk scoring. The register is inclusive of financial sustainability risks and notes the current HRA pressures.

The Authority has a large balance of total general fund reserves sitting at a balance of £237m in 2023/24, however, we do note that the £10.6m of General Fund reserves were utilised in 2023/24 and around £22.3m of 2024/25 budgeted overspend is expected to be funded from reserves. The Authority also has well-documented financial pressures in relation to the Housing Revenue Account caused by the impact of inflation, costs for housing works and materials, real-terms rent reductions imposed by Central Government, and obligations to improve the safety of homes. There is also additional pressure on the HRA as a result of the self-referral to the Regulator of Social Housing in December 2023. The Authority had identified that a significant proportion of its housing stock was not meeting the Decent Homes standard, had overdue fire remedial actions and high volumes of repairs requiring works.

During 2023/24, the HRA budget was overspent by £6.1m, driven primarily through reoccurring pressure on repairs, and the level of reserves left within the HRA, at the end of 2023/24 are low standing at £7.4m which is below the recognised level of 10% of rental and service charge income. This therefore reduces the ability of the Authority to respond to unexpected events. To respond to the financial sustainability challenges in the HRA, the Authority has developed a HRA 30-year business plan. The plan includes a Repairs Transformation Project to reduce the overspend in repairs, and measures to maintain a positive reserves balance, in the long-term bringing this back to desired levels.

# Value for money



## Financial sustainability (continued)

### In assessing whether there is a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan.

### Summary of risk assessment

The Authority have also brought the management contract previously provided by Lewisham Homes in-house during the year as part of these plans to better control and manage its spend in relation to the housing stock. We consider there to be a risk over the effectiveness of the arrangements in place to deliver financial sustainability in respect of the HRA during 2023/24, however, we do note the transparency of the Authority in writing to the Ministry of Housing, Communities and Local Government in October 2024 outlining the latest assessment of the challenging HRA financial position.

The Authority sets the 2024/25 budget during 2023/24 and we noted that the Authority has a medium-term financial strategy, which brings the Authority in line with its peers. We also noted that the Authority have fully refreshed the savings programme to incorporate all required savings into the medium-term financial strategy and considered deliverability risk.

Further detail will be set out in our Auditors' Annual Report.

### Risk assessment conclusion

Based on the risk assessment procedures performed we have identified a significant risk associated with the arrangements to deliver financial sustainability in respect of the Authority's Housing Revenue Account. Further detail is set out on page 9.

# Value for money



## Governance

### In assessing whether there is a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

### Summary of risk assessment

The Authority has an updated risk management strategy for 2023-27 and officers are encouraged to identify and monitor risks. Risks are logged in the Corporate Risk Register where they are scored on likelihood and impact. Risks are reported to Cabinet on an annual basis and are also presented to Audit and Risk Committee.

The Authority maintains a Register of Gifts and Hospitality which is publicly available on the Authority's website, as well as a Register of Members' Interests which is required to be updated annually per the Code of Conduct.

The Authority has an established governance structure, with a set of committees and sub-committees that is in line with our expectation for an organisation of its size and complexity. The Authority's constitution is set up to help ensure key decisions receive appropriate scrutiny and approval prior to those decisions coming into effect. We have observed that these controls were in place for key decisions during 2023/24, for example, approval for the role of Acting Chief Executive.

The services delivered by Lewisham Homes were in-sourced back to the Authority in 2023-24. We identified through our external audit testing that some improvement was required around the management of the transfer of data from Lewisham Homes, however we do note that a lessons learned exercise was undertaken in November 2023 involving consultation with stakeholders to feed back to the Executive Management Team (EMT) including reflection on set up and timescales, culture, ICT, resources, communication and programme costs. We also note that the Authority does not have complete data for all its properties and their condition.

The Authority self-referred to the Regulator of Social Housing in December 2023 due to identifying a failure to meet statutory health and safety requirements in some of its homes, including overdue fire remedial actions and repairs. The regulator concluded that the Authority is not meeting the required outcomes of the Decent Homes Standard. The Authority has contracted Savills to undertake a full stock condition survey and plan to address non-decency, fire remedial actions and repairs. The matters raised suggests that the Authority may not have effective governance arrangements over social housing stock and remediation plans. We therefore consider there to be a risk in relation to the arrangements that were in place during 2023/24.

Further detail will be set out in our Auditors' Annual Report.

### Risk assessment conclusion

Based on the risk assessment procedures performed we have identified a significant risk over the effectiveness of governance arrangements in place during the 2023/24 period in relation to social housing stock and remediation plans. Further detail is set out on page 10.

# Value for money



## Improving economy, efficiency and effectiveness

### In assessing whether there is a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Authority has engaged with other stakeholder and wider partners in development of the organisation;
- How the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

### Summary of risk assessment

The Authority brought the services of Lewisham Homes back in-house during 2023-24. The Authority does still have outsourced services whose performance is monitored through a contract monitoring framework, this identifies any issues with a number of standardised KPIs including delivery quality. Our work over the Authority's PFI models as part of the financial statements audit did indicate a lack of control around monitoring of the lifecycle replacement work completed as part of the PFI scheme, and we have raised a recommendation around contract monitoring controls in this area.

The Authority's performance is monitored through regular management reports and quarterly at the EMT. These reports include measurements such as comparison to budget, and best/worst case scenarios. KPI's are shown in the Power BI Dashboard 'Lewisham Corporate Performance Report' across eight priority areas and are shown as on target, no target, almost at target or working to improve. The Authority also has a Corporate Performance Report which is updated each quarter and is available for residents and other stakeholders through a Power BI Interface. The Authority's Governance Action Plan is also monitored throughout the year.

We have not identified any materially under-performing services during 2023/24, notwithstanding the self-referral to the Regulator of Social Housing. We do note high spend in Adult and Children's Social Services with reporting of a £30m overspend across all services in 2023/24. The Authority has done a deep dive on these areas and is implementing a comprehensive review of costs drivers and external independent review, including learning from other local authorities.

The Authority has not initiated any commercialisation activities such as borrowing to invest or setting up subsidiaries to conduct novel commercial activity.

The Authority does have services it provides in partnership with others. As well as the operation of pooled budget arrangements, the Authority is also the host partner for the Lewisham Better Care Fund with South East London ICB. The Authority participates in a Partnership Board to ensure that the service operates effectively.

The Authority has a process where waivers can be obtained from the Authority's procurement process, for instance if there is a monopoly supplier or an urgent reason to bypass the procurement process. All waivers are approved by the Executive Director for Corporate Resources and a register of Single Tender Action's is maintained by the Authority including report title and sign off date. This aids officers and members in assessing whether the Authority achieves value for money from those suppliers.

Further detail will be set out in our Auditors' Annual Report.

### Risk assessment conclusion

Based on the risk assessment procedures performed we have not identified any significant risks associated with the arrangements in place to improve economy, efficiency and effectiveness.



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## Sustainability of Housing Revenue Account

Significant Value for Money risk linked to the domain of financial sustainability



### Significant Value for Money Risk

Our risk assessment procedures identified pressure on the Authority's housing directorate. Lewisham has a large social housing portfolio and consequently its housing directorate needs to respond to a variety of pressures and issues, such as overspending against the repairs budget and new regulations including building safety, fire, damp and mould.

A key risk we identified relates to financial sustainability of the Housing Revenue Account. Availability of financial resources is key to ensuring that homes can be well maintained and that the service can operate effectively.

During 2023/24, the HRA budget was overspent by £6.1m. Lewisham's HRA has been experiencing financial pressures caused by (amongst other factors) inflation, new building safety obligations, below-inflation rent increase caps, and overspending against the repairs budget. There is also additional pressure on the HRA as a result of the self-referral to the Regulator of Social Housing, resulting in a large proportion of housing stock being identified as below the Decent Homes standard and requiring works. The value of reserves in the HRA has been falling over time, which reduces the ability of the Authority to respond to unexpected cost pressures. At 31 March 2024, the HRA reserve stood at £7.4m, a reduction of £6.7m since the prior period. The Authority has developed a 30-year Business Plan as well as a Repairs Transformation Project to restore the financial sustainability of the HRA.

The low value of the HRA reserve, combined with the overspend during 2023/24 raises the risk that there were no adequate arrangements in place in 2023/24 in relation to the financial sustainability of the HRA.



### Our response

We will perform the following procedures:

- Evaluate the factors causing the HRA overspend during 2023/24, and assess whether there were appropriate arrangements to monitor and control spending during the year.
- Obtain and read the 30-year HRA Business Plan. Assess whether the plan was subject to appropriate review, challenge, and approval prior to coming into force.
- Ensure the 30-year HRA Business Plan is plausible in reference to forecast interest and inflation rates; new building safety regulations; and capital expenditure required in respect of stock condition and known capital commitments.

## 2 Social housing stock and remediation plans

Significant Value for Money risk linked to the domain of governance



### Significant Value for Money Risk

The Authority self-referred to the Regulator of Social Housing in December 2023 due to identifying a failure to meet statutory health and safety requirements in some of its homes, including overdue fire remedial actions and repairs. The regulator concluded that the Authority is not meeting the required outcomes of the Decent Homes Standard but there is no statutory or enforcement action that they have taken to date.

The Authority have contracted Savills to undertake a full stock condition survey and plan to address non-decency, fire remedial actions and repairs. So far, the stock condition survey has identified around 24% of homes not in line with the Decent Homes standard as reported to the Regulator in the Lewisham Authority Regulatory report November 2024, but this may increase on completion of the survey. The completion of the works required to meet the Decent Homes standard will also put additional pressure on HRA reserves which are already under significant pressure.

The Authority reports to the Regulator on a regular basis with an update on the work completed to date to remediate the issues identified, including responsive repairs performance, movement on fire safety actions and an update on the stock condition survey programme. The Authority also has a Repairs Improvement Plan which is regularly updated.

We have therefore identified a significant risk that the Authority may not have appropriate governance arrangements in place in relation to social housing stock and remediation plans.



### Our response

We will perform the following procedures:

- Obtain an understanding of the escalation process that led to the self-referral
- Obtain and review the monitoring reports the Authority have shared with the Regulator
- Obtain and review the programme the Authority have put in place to rectify the issues identified as a result of the self-referral to the Regulator
- Obtain and review the draft Savills stock condition survey
- Obtain and review the Repairs Improvement Plan
- Assess the ongoing monitoring arrangement of housing stock condition and the associated reporting mechanisms