Grant Thornton

Value for money conclusion

Year ending 31 March 2018

London Borough of Lewisham Council

February 2019

Contents

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Value for Money

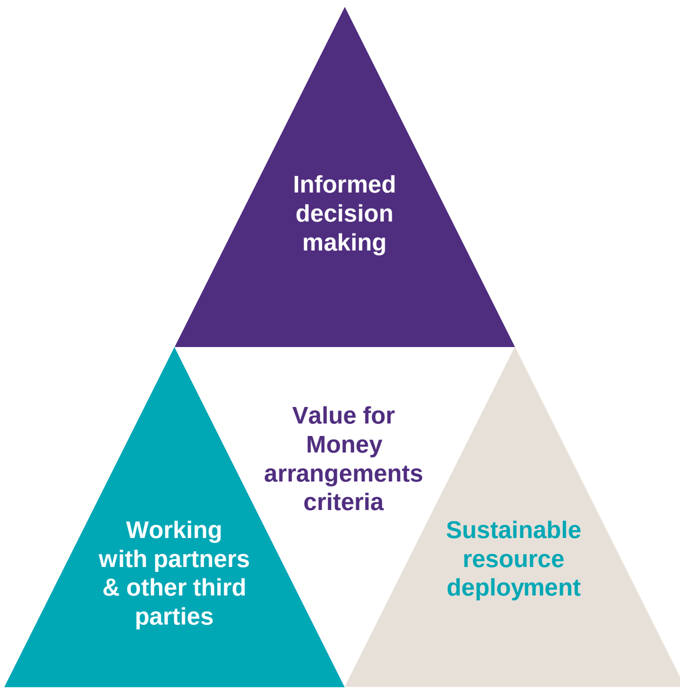
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the you have proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January and February and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2018. The risks that we identified were as follows:

- budget management;
- savings plans and medium term financial planning; and
- transformation

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in your arrangements. In arriving at our conclusion, our main considerations were:

- Your outturn position against general fund revenue budgets for 2017/18
- Whether your Medium Term Financial Strategy is based up a reasonable assumptions
- The appropriateness of arrangements in place in respect of your transformation programmes

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work the following pages.

Value for Money

Risks as reported in audit plan

Our audit plan for 2017/18 identified three significant risks in respect of your VFM arrangements. These were

- Budget management;
- Savings plans and medium term financial planning; and
- Transformation

The risks, in detail, are set out on the right.

Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Budget Management

You are currently projecting a £12.9m overspend on the 2017/18 budget. Should you utilise the risk and other budget pressures reserve in full this will reduce your overspend to £11.6m. This anticipated overspend is larger than the prior year overspend of £7m. Should the position worsen then this will increase the pressure into 2018/19.

In response to this risk we will:

- Update our understanding of the pressures affecting the 2017/18 budget.
- Consider whether you have adequate arrangements to manage those pressures and to secure a sustainable financial position.
- Consider your approach towards the use of reserves.

Savings plans and medium term financial planning

You have set a balanced budget for 2018/19 which includes an overall increase in the total Council Tax of 4.20%, and savings of £4.9m. In addition, the budget proposals include a transfer of £5m from the New Homes Bonus reserve to the General Fund, the use of £3.6m reserves, you have also set aside £13.4m for identified and unidentified corporate risks and pressures. Going forward you will need to identify further savings of circa £35m for 2019/20 and 2020/21. Your Medium Term Financial Strategy anticipates that post 2020 approximately £10m per year of savings will be required.

In response to this risk we will:

- Consider your arrangements to identify and deliver savings and efficiencies towards achieving a sustainable medium term financial position.
- Update our understanding of how you are working with partners in the local health economy to achieve savings.

Transformation

You are planning a significant transformation programme. This will be technology enabled and seek to drive the right cultural outcomes from, and for, people, facilitating innovation to drive transformational benefits – financial and non-financial – resulting in service improvements and better working with residents. Any transformation programme of this scale, complexity and ambition carries inherent risk.

In response to this risk we will:

- Update our understanding of overarching programme management arrangements.
- Consider whether you have adequate arrangements to manage the interdependencies, identify and realise planned benefits and ensure robust and effective programme governance.
- Asses the extent to which transformational plans and medium term financial planning is aligned, and whether assumptions in financial plans align with programme ambitions.

Value for Money

The audit plan was finalised and agreed in early 2018. Fieldwork in respect of all three risk areas was planned for spring and early summer of 2018.

We undertook the fieldwork for the first two risk areas during this period, and reported our findings to the Audit Panel in our reports in July 2018 and September 2018.

Following discussions with officers during the fieldwork stage earlier in the year, we were informed that there may be significant weaknesses in the arrangements underpinning the transformation programme. The interim CEO was concerned about the increasing costs of the programme and, pausing it whilst priorities were assessed and confirmed, embarked upon a review to assess service plans and priorities, progress with transformation work and the arrangements supporting the programme. This was reported to the Executive Management Team (EMT) in May 2018. Senior management were also alerted to governance concerns, and a specific review was undertaken by the Monitoring Officer. The new chief executive, who was appointed in March 2018 and took up his position in May 2018, subsequently initiated a number of selective service reviews / interventions across the Council, particularly focused on Children's Social Care, Transformation, Technology, and Finance. The chief executive drafted a paper containing proposals, prior to his departure, for taking Transformation forward covering governance, priorities, and timetable.

We therefore agreed with officers that we would defer our review until officers had concluded their reviews and investigations in this risk area. In our reports to the Audit Panel in July 2018 and September 2018, in respect of the Transformation risk, we said:

"You are currently undertaking an internal review of the governance arrangements over your transformation programmes. We are awaiting the conclusion of your review before completing our work in this area. Because of this we are not able to conclude against this significant risk at this stage. We will conclude our value for money conclusion once we have had an opportunity to consider the outcome of your reviews and consider the impact on our conclusion and on the other significant risks"

The reviews and investigations are now complete and we have concluded our value for money work in respect of the transformation programme risk area.

Having concluded our work in all risk areas, we have therefore also concluded our work in respect of your overall vfm arrangements.

In carrying out our work, we

- Reviewed your programme documentation, internal and external reports, investigation reports and other key documentation;
- Discussed issues and arrangements with key relevant senior officers, as well as individuals within the team; and
- Reviewed management plans for future arrangements and direction of travel.

This report sets out the findings from our work on the transformation risk. It also reproduces the findings we reported in respect of the other two significant risks, as contained in our reports to the Audit Panel in July 2018 and September 2018, so that the full value for money findings are contained in one document.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Value for Money

Overall conclusion

Areas of review

In our audit plan we stated we would review the arrangements in place in respect of the following areas:

- Budget management
- Savings plans and medium term financial planning
- Transformation

Whilst we were completing our work the new chief executive, who took up his position in May 2018, departed the Council in December 2018. We identified this as a fourth area and considered this within our work in respect of your arrangements to support value for money.

Previously reported findings

We reported previously, in our interim vfm report, in respect of the first two areas of focus:

- Budget management; and
- Savings plans and medium term financial planning

Our review did not identify any significant or material weaknesses in these arrangements. We did, however, identify areas for improvement and raised recommendations to strengthen the arrangements in place. These were reported in July 2018 and are represented in Appendix B in this report.

Findings in respect of Transformation arrangements

Our review of arrangements in respect of your transformation programme did, however, identify a number of significant weaknesses in respect of those arrangements.

The transformation programme, agreed by the Council as part of the 2017/18 budget, comprised a £10.6m plan to transform ways of working and service delivery, to be implemented through the following three sub-programmes:

- A variety of digital projects to support service change and some infrastructure works to transform ways of working and enhance service delivery, efficiency and effectiveness. This represented £4.9m of the £10.6m transformation budget;
- Oracle Cloud ERP (finance, HR and payroll), representing £3.3m; and
- Agile working, cultural change and refurbishment of Laurence House, representing £2.5m.

From our review of this transformation programme, it was clear the arrangements in place were not sufficient in two key regards, *inter alia*:

- Arrangements were insufficient to support a transformation programme of this scale and complexity, with many of the expected elements of effective programme management missing in the overarching governance arrangements; and
- Assurance and oversight arrangements were insufficient to identify risk issues, escalate appropriately and ensure action was taken to mitigate, meaning senior management was unable to respond sooner to the deficiencies in place.

In our view, these matters are evidence of weaknesses in the arrangements for:

- Demonstrating and applying the principles and values of sound governance
- Managing risks effectively and maintaining a sound system of internal control;
- Planning, organising and developing the workforce effectively to deliver strategic priorities; and
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions.

Once senior management was made aware of these issues, their response was appropriate and effective.

We recognise that senior management are taking significant steps to strengthen the robustness of governance arrangements in place to support essential transformation within the Council. In our discussions with senior officers, we saw a good understanding of the issues that had been in place and the measures needed to improve and strengthen arrangements. Officers were also helpful, open and transparent in discussing the issues with us.

It is also clear that addressing these weaknesses is a priority for your senior officers. You are undertaking a review to identify future transformation needs and governance arrangements, with the aim of remedying the risks and deficiencies in the previous arrangements to support effective transformation going forward.

Value for money conclusion

Based on the work we have performed to address the significant risks set out in the audit plan, we have concluded that, except for the matters we have identified in respect of transformation governance arrangements, the Council has proper arrangements in all significant respects.

We therefore propose to issue a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

TRANSFORMATION – SUMMARY FINDINGS

Significant risk	Findings and conclusion
As set out in the audit plan dated February 2018 **Transformation** You are planning a significant transformation programme. This will be technology enabled and seek to drive the right cultural outcomes from, and for, people, facilitating innovation to drive transformational benefits – financial and non-financial – resulting in service improvements and better working with residents. Any transformation programme of this scale, complexity and ambition carries inherent risk. In response to this risk we will: • Update our understanding of overarching programme management arrangements. • Consider whether you have adequate arrangements to manage the interdependencies, identify and realise planned benefits and ensure robust and effective programme governance. • Asses the extent to which transformational plans and medium term financial planning is aligned, and whether assumptions in financial plans align with programme ambitions.	**Summary findings** • Management was aware of potential significant weaknesses in the transformation governance arrangements and were investigating. As a Council, you have confirmed and concluded that such weaknesses did exist. You have decided the transformation programme, as originally constituted, was not appropriately designed, and have decided to pause elements of the programme in its previous form whilst the overarching governance arrangements are redesigned. Various reviews have taken place and you have accepted the recommendations, and are putting action plans in place, to revamp the transformation programme and associated governance and programme management arrangements. • The Council is to be commended for taking action to address the significant deficiencies within the programme, which were present during the past year. The Council is also to be commended for being sufficiently flexible to adopt a fulsome redesign of the programme architecture, acknowledging the mistakes of the previous arrangements and seeking to strengthen the robustness of arrangements in the future transformation programme going forward. It was clear from our discussions with senior officers that the deficiencies in the previous arrangements were understood, and there was clear vision articulated in terms of the changes that needed to be made, along with a good understanding of governance requirements going forward. • Notwithstanding this, the arrangements in place during the year of audit were not sufficient. They did not address or support the needs of a transformation programme of this scale and complexity. Arrangements fell short due to a combination of inappropriate governance and insufficient skills and experience at the detailed level. Governance was unclear, or not operating effectively, and the skills deployed and in place within the programme and individual projects were not suitable for a programme of this size. At an operational level, individuals within the programme raising issues of concern were not always listened to. Governance concerns expressed at an operational level were not escalated upwards sufficiently. Oversight boards and committees did not always recognise the problems that were arising or, if they did, did not always fully appreciate the significance of these issues and ensure they were escalated and mitigated. • Effective organisations have three ‘lines of defence’ in terms of assurance and control. Level 1 refers to the assurance to be gained from the appropriate operation of controls by having effective arrangements in place at the ground level. Level 2 refers to the assurance to be gained from the effective operation of review committees, programme boards, risk committees, and other oversight mechanisms, which either provide assurance over arrangements or escalate issues reported to it. Level 3 refers to independent assurance functions, such as internal audit, or external inspection. *continued……*

TRANSFORMATION – SUMMARY FINDINGS

Significant	Findings and conclusion
Transformation Continuation of risk noted on the previous page	**Summary findings – *continued*** • None of the Council's assurance mechanisms identified the significance of these problems at an early stage, meaning action was not taken as early as it could have been in response. Risk and issues at ground level were not always heeded. None of these issues were identified by any independent assurance reviews. Furthermore, action was only taken when the interim chief executive paused the programme upon becoming concerned at requests for additional funding, or when governance issues were articulated and pursued by individuals outside of the Council's core assurance, governance and oversight mechanisms. It was only once this took place that senior management became fully aware of the potential deficiencies in place and, once aware, took action. Once senior management was made aware, their response was appropriate and effective. Had assurance and governance mechanisms and arrangements functioned more effectively, senior management would have been in a position to have identified the issues and taken action sooner. • As such, the programme continued to operate with insufficient arrangements for longer than it needed to. This may have resulted in decisions being made, and costs being incurred, unnecessarily. The Council's view is that, whilst this may be the case, costs incurred are not 'wasted' costs, as they have supported the Council's learning and development in the evolution of the programme arrangements and, the Council contends, many necessary changes were still delivered. However, the insufficient arrangements mean progress against this significant risk area has been slower than planned, consuming significant quantities of management time and preventing the Council from moving forward more quickly in developing its transformation of services for residents and taxpayers. It is also not clear whether certain decisions, which have incurred cost for the Council and taxpayers, would still have been made had the governance arrangements operated more effectively and had the potential risks and issues been articulated and considered more fully at the time investment decisions were made.

TRANSFORMATION – DETAILED FINDINGS

Significant risk	Findings and conclusion
As set out in the audit plan dated February 2018 **Transformation** You are planning a significant transformation programme. This will be technology enabled and seek to drive the right cultural outcomes from, and for, people, facilitating innovation to drive transformational benefits – financial and non-financial – resulting in service improvements and better working with residents. Any transformation programme of this scale, complexity and ambition carries inherent risk. In response to this risk we will: • Update our understanding of overarching programme management arrangements. • Consider whether you have adequate arrangements to manage the interdependencies, identify and realise planned benefits and ensure robust and effective programme governance. • Asses the extent to which transformational plans and medium term financial planning is aligned, and whether assumptions in financial plans align with programme ambitions.	**Detailed findings** We set out below some of the detailed findings informing our proposed vfm conclusion. The transformation programme, agreed by the Council as part of the 2017/18 budget, comprised a £10.6m plan to transform ways of working and service delivery, to be implemented through the following three sub-programmes: • A variety of digital projects to support service change and some infrastructure works and transform ways of working to enhance service delivery, efficiency and effectiveness. This represented £4.9m of the £10.6m transformation budget; • Oracle Cloud ERP (finance, HR and payroll); and • Agile working, cultural change and refurbishment of Laurence House. The following weaknesses, which were present in your arrangements for delivering the transformation programme, have led us to conclude that you did not have proper arrangements in place to address the risk identified in our Audit Plan. • You did not implement an overarching strategy that clearly describes to your key stakeholders how your key transformational projects are designed, interlinked and implemented to drive future service delivery. • The established devolved governance arrangements resulted in a lack of clarity in the roles, responsibilities, ownership and accountability throughout the programmes. A combination of inaccurate/inadequate reporting and a lack of challenge by senior management of the reporting at transformational boards resulted in problems not being identified or resolved on a timely basis. • The benefits realisation assessment across projects was not adequate. This hindered the assessment of the success and failures of projects as they progressed. • The pace of the implementation of schemes impacted on the ability to communicate and train staff, and ensure they were fully involved, committed and understood the aims, objectives and trajectory of projects. This led to a loss of ‘hearts and minds’ of staff implementing the programmes, undermining the buy-in and ownership at ground level that is necessary to implement transformation successfully and realise cash and non-cash benefits. The transformation project needs to be closely aligned to your Medium Term Financial Strategy, as mitigating the medium term financial gap is dependent in part on the successful delivery of the transformation programme. This means slippage in the transformation programme, or parts of it, could lead to adverse financial consequences in future years. You have undertaken an internal review of the transformation programme. You are currently implementing the lessons learnt from this review, including pausing some projects to enable a more detailed analysis to be undertaken, and remodelling the governance structures to enable senior management to own, drive and lead future programmes.

TRANSFORMATION – DETAILED FINDINGS

Significant risk	Findings and conclusion
Transformation Continuation of risk noted on the previous page.	**Transformation Governance** The transformation programme is split into four major programmes: Customer Services, Adults' Social Care; Children's' Social Care; and Digital Council. You implemented a devolved governance model, with each programme having a separate programme board and Senior Responsible Owner (SRO) that broadly mirrored the directorate structure of the Council. The reasons for this were not unreasonable: you correctly anticipated that successful transformation programmes rely on a significant degree of buy-in and ownership at ground level, and that benefits are best realised when the 'business' itself fully embraces and drives the change. The devolved governance model was designed to maximise the likelihood of this. However, in adopting a devolved governance model, you did not establish an overarching board from your senior management team that had strategic oversight across the entire transformational programme. As a result, there was insufficient transparency and management of interdependencies across projects and inadequate monitoring, challenge and holding of the programme boards and SROs accountable for delivery. The governance structures did not clearly articulate the roles, responsibilities, ownership and accountability of stakeholders throughout the programmes. A combination of inaccurate/inadequate reporting and a lack of challenge by senior management of the reporting at transformational boards resulted in problems not being identified or resolved on a timely basis. Particular issues occurred in the Digital Transformation programme where there were some shortfalls in skill-sets, capability and experience without sufficient oversight/support from more senior officers. Issues that experienced project managers felt needed raising to the Digital Transformational Board for discussion were in some cases excluded from papers and/or risk ratings changed to present issues and progress in in a more favourable light. This resulted in insufficient focus and challenge on the key risks. You did not fully utilise the assurance functions available to you that would have provided independent scrutiny and challenge of the governance arrangements across the projects. Transformational projects of this scale that are key to transforming service delivery and generating significant future savings traditionally have a high level of risk associated with them. We would have expected you to have deployed more of your assurance function resources such as Internal Audit to provide a robust, independent review and challenge of your arrangements, controls and processes utilised to deliver the projects. Your Head of Internal Audit was acting as a project sponsor on one of the Digital Transformation projects. Whilst this project did not represent a large proportion of the overall transformation programme, nonetheless these dual roles risk the perception of a conflict of interest and a lack of independence on any work Internal Audit could have undertaken to provide assurance in this area. **Strategy and project planning** You did not implement an overarching strategy that clearly describes to your key stakeholders how your key transformational projects are designed, interlinked and implemented to drive future service delivery. Such a strategy is essential to demonstrate the reasons for projects, how they are implemented and the expected benefits that transformation will bring all stakeholders. This is also particularly essential to realise the benefits of ownership and buy-in from implemented a devolved governance model. Such a visible strategy that is updated as projects progress/change will facilitate officers' understanding of how their work correlates with your wider strategic vision. helping you to bring hearts and minds with you and ensuring those responsible for delivering projects retain a sense of ownership and purpose within the wider vision.

TRANSFORMATION – DETAILED FINDINGS

Significant risk	Findings and conclusion
Transformation Continuation of risk noted on the previous page.	The design of the future services including working processes and controls to support future delivery was not articulated to all key stakeholders. The core required elements of individual project plans, such as benefit realisation assessments, were not consistently completed. This resulted in challenges in assessing the progress and the success or failure of each project. You did not define clear timescales and measures of success at regular intervals to be able to successfully monitor and judge progress and to enable informed decisions to be taken as to whether to continue with the project, make changes to the approach or abandon a project altogether. For completed projects, post-implementation reviews were not completed and lessons learnt applied across other projects in a timely manner. **Project delivery** Officers have stated that project timelines were driven by the budget available and were given unrealistic timeframes, resulting in standard project methodologies not consistently being followed, rushed decisions by management and insufficient training time devoted to using new processes and technology. Roles and responsibilities of officers implementing projects were unclear. This caused a loss of morale amongst the officers who would benefit the most from the changes as they felt disconnected from the process. You have struggled to recruit and retain officers with the specialist technical skills that some of the more complex ICT projects require. You have tried to resolve some of these capacity and capability issues by recruiting less experienced or more generalist project managers at a lower fee. However, as issues of a more technical nature have arisen you have had to appoint more experienced specialists to address these issues and progress projects. **Alignment of the Transformation programme to Medium Term Financial Strategy** The transformation programme key aims are focussed towards delivering your services more efficiently, increasing productivity and successfully shifting services online. These aims align well with those of the Medium Term Financial Strategy to support proper financial management and control of the Council's resources to secure efficiency. Due to the decision to pause elements of the transformation programme, in the most recent Medium Term Financial Plan there is no reference to the transformation programme as a means of delivering the required savings. The plan instead states that the Lewisham Future Programme approach to financial planning is being reviewed following the start of the new administration, Mayor and Chief Executive in May 2018. It will be important, once the revised programme objectives, aims and vision are fully agreed, to fully map the interdependencies such that the impact of any changes, delays or slippage to the transformation programme can be easily assessed in terms of the knock-on impact on your medium term financial plans. **Progress made by the council** The interim CEO, concerned about the increasing costs of the programme, paused it. She then embarked upon a review with the aim of assessing the progress of each project under the transformation programme umbrella and recommending whether projects should be continued, changed or abandoned altogether. A number of projects have continued to be delivered. The Oracle Cloud project has continued and is in the process of being rolled out in stages. The digital transformation project, which aims to shift transactional services online and improve the customer experience, facilitated by a new website, has continued, as has refurbishment of the Council's offices. The more problematic projects, such as those in Adult and Children's Social Care, have been paused and are being refreshed. The devolved governance arrangements are being renewed to enable the Executive Management Team have more oversight, with the Chief Executive as SRO and accountable to the Mayor and Cabinet. The Chief Executive will be supported in the tracking of the progress of each project by the creation of a programme management office. We support the increased robustness these changes will bring, enabling senior management to maintain a closer focus over the transformation programme.

RECRUITMENT AND DEPARTURE OF THE CHIEF EXECUTIVE – MAY 2018 TO DECEMBER 2018

Significant risk	Findings and conclusion
Chief Executive May 2018 to December 2018.	**Chief executive: March 2018 to December 2018** In March 2018, as set out on your website, Members appointed a new chief executive, “following a rigorous selection process by an appointments panel consisting of Sir Steve Bullock, (former) Mayor of Lewisham, and a cross-party group of eight councillors. Organisations from across the Lewisham borough also took part in the selection process, including: • Lewisham Hospital • the Police • Goldsmiths, University of London • Phoenix Community Housing • SE London Chamber of Commerce.” In November 2018, Members announced they had decided to “take a new direction….with no negative reflection on [the then chief executive]”. The chief executive left the Council after only 7 months in post. Dealing with this matter unavoidably consumed additional management capacity at a senior level. This capacity, in the absence of this matter, could have been better utilised and directed towards the other significant challenges the Council faces, particularly given the significant issues with transformation governance that needed to be addressed. Taken as a whole, and considered in the context of our review into the Council’s overall arrangements to secure value for money in the use of its resources, this was an undesirable turn of events which Members will wish to avoid in the recruitment of a replacement chief executive. There may be lessons to be learnt in respect of this matter. Members should reflect on what those lessons may be and how future recruitment can be undertaken to minimise the risk of recurrence.

BUDGET MANAGEMENT – PREVIOUSLY REPORTED IN JULY AND SEPTEMBER 2018

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusion
As set out in the audit plan dated February 2018 **Budget Management** You are currently (at risk assessment) projecting a £12.9m overspend on the 2017/18 budget. Should you utilise the risk and other budget pressures reserve in full this will reduce your overspend to £11.6m. This anticipated overspend is larger than the prior year overspend of £7m. Should the position worsen then this will increase the pressure into 2018/19. In response to this risk we have: • Updated our understanding of the pressures affecting the 2017/18 budget. • Considered whether you have adequate arrangements to manage those pressures and to secure a sustainable financial position. • Considered your approach towards the use of reserves.	**Summary findings** • Your 2017/18 outturn position delivered a net £16.5m (7.1%) overspend. This resulted from a significant directorate overspend of £20.6m offset by directorate underspends of £2.8m and £1.3m contingency held corporately for risks and other budget pressures. • The Children and Young People directorate overspend of £15.6m (32%) is particularly significant. You need to gain a clear understanding of the circumstances that have driven the overspend and put in place robust measures to address these, as well as consider the sufficiency of the budgets in these areas. • There is no guarantee non-departmental underspends will continue, so vigilance over future positions is critical. Failure to deliver to budget could have a significant impact on your financial health. • You increased Lewisham's share of council tax by 4.99% for 2017/18 but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required across the organisation. **2017/18 Financial Performance** Like most local authorities across the country, the London Borough of Lewisham is facing a challenging financial position and uncertainty around future funding. You faced a reduction of £13.5m in the Revenue Support Grant in 2017/18 (£46.1m) compared to 2016/17 (£59.1m). You set a balanced budget for 2017/18 which relied on achieving an identified £22.2m of savings, increasing your share of council tax by 4.99% (1.99% increase plus 3.00% increase for the Social Care Precept), use of £5.0m of the New Homes Bonus for revenue purposes and release of £6.5m of corporate budget to offset risks and pressures. The 2017/18 £22.3m savings programme was agreed by you in the Lewisham Future Programme in September 2016. The savings which were identified as part of the budget process were deducted from the relevant service's budget. The savings programmes were not directly monitored, as monitoring was undertaken on overall budgets. In our view, this results in a lack of transparency and clarity in identifying whether the overspends are the result of under-delivery of savings plans or genuine unavoidable pressures from demand increases. Without this clarity, you may not be able to properly assess the robustness of future plans and make an informed judgement as to the deliverability of the £13.0m of additional savings in the 2018/19 budget. This also risks hampering your ability to make informed decisions in response, and your ability to properly assess performance in delivering transformational savings. We would recommend strengthening governance in this area by specifically monitoring the delivery of savings programmes and the success of the schemes involved and, importantly, where savings are not delivered as planned, identifying the causal drivers behind this. This will also enable you to determine whether overspends are due to failed savings programmes or deficiencies in the budget setting and delivery processes. It is important to understand these distinctions as the responses needed in each case may differ. We will consider this further in our subsequent review of your transformation governance arrangements. Your financial outturn position shows a £16.5m overspend on the directorates' net general fund revenue budget. However, this position was after applying £1.3m of a one-off corporate sum for risks and other budget pressures. The underlying service level overspend is therefore £17.8m, with the most significant overspends in Children and Young People (15.6m or 32%) and Customer Services (£5.0m or 11.7%). These were offset by underspends elsewhere, including £1.9m in the Resource and Regeneration directorate and 0.9m in the Community Services directorate. Despite the overspends, the General Fund balance at year end remained at £13.0m and Earmarked reserves increased by around £10.5m to £160.1m. The overspends have been regularly communicated to senior officers and members. The financial position is reported to members through the quarterly Public Accounts Select Committee meetings as at May, September, December and January, and monthly to the Executive Management Team. Until January 2018 the Council was reporting an overspend of approximately £13.0m. This was largely driven by demand led services within the Children and Young People directorate, mainly children's social care, and the environment section of the Customer Services directorate.

BUDGET MANAGEMENT – PREVIOUSLY REPORTED IN JULY AND SEPTEMBER 2018

Significant risk	Findings and conclusion
Budget Management Continuation of risk noted on the previous page.	From May 2017, overspends in Children and Young People were forecast to be £7.0m and rose steadily to £8.6m in January 2018. That significant overspends were forecast from so early in the year indicates a weakness in the arrangements for identifying assumptions for the budget setting in this area. You should strengthen the budget setting arrangements and improve the robustness of the assumptions on which the budget is based. The overspend had increased significantly to £15.6m by the end of the year. The increase was not due to a dramatic surge in demand led services in February and March. Instead it was due to assumptions made in financial forecasting that included mitigations that had been expected to be made earlier in the year that had not come to fruition. This resulted in the additional overspend only being reported at the year end. This indicates a weakness in the arrangements around the reporting of financial information to management and members. The final overspend was due to demand throughout the year for residential care places (£3.2m), fostering (£2.0m), placements in semi-independent accommodation (£1.8m) and other placements. Furthermore, a £7.5m overspend on staffing, particularly due to agency spend to meet the increased demand, had a negative impact on the Children's Social Care budget. Also contributing to the overspend in the Children and Young People Directorate is an overspend of £1.0m on schools' transport due to the increased use of taxis for extra pupils being transported following a reduction in the number of buses in service. We recommend presenting more information around the mitigations included in the forecast outturn reports to enable closer scrutiny of these to prevent unexpected deterioration of the financial position at the end of the year. The other significant area of overspend was £5.0m in the Customer Service directorate. The largest element of this was the £3.2m overspend in the Environment section. Most of this was attributable to the £2.1m overspend in the refuse service caused by the delay in implementing the move to fortnightly collections and introduction of the new food and garden waste service for which new vehicles were not procured in time to implement, leading to increased vehicle hire charges.

Authority	General fund reserves as at 31 March 2018	Gross service expenditure for 2017/18	Ratio of General Fund reserves to Gross service expenditure
	£000	£000	%
Lewisham	13,000	925,075	1.4%
Average (All London Boroughs)	19,672	879,996	2.7%
Neighbouring and comparable London Boroughs			
Greenwich	13,269	888,988	1.5%
Lambeth	22,851	1,301,324	1.8%
Newham	12,352	1,202,228	1.0%
Southwark	18,803	1,257,329	1.5%
Tower Hamlets	33,255	1,260,278	2.6%
Croydon	10,393	1,174,044	0.9%
Waltham Forest	14,572	863,711	1.7%

Your General Fund position has remained at £13.0m at 31 March 2018, which is the same as in 31 March 2017. This has been achieved through the use of one-off corporate resources, such as the £10.9m transfer of NHS long term creditors to Health Reserves and £6.5m surplus on Corporate Provisions.

This ratio of General Fund reserve to gross service expenditure is relatively low in comparison to other London Boroughs. It is around half that of the average of all London Boroughs, and when compared to your closest and most comparable size boroughs only Croydon and Lambeth have lower ratios. There is the risk that this level of General Fund Reserves is not sufficient to cope with the additional pressure of a significant unexpected incident.

Conclusion

There may be scope to strengthen governance and monitoring arrangements by monitoring savings delivery, shortfalls and causal factors, in addition to the normal budgetary monitoring processes. There is also scope to strengthen budgetary monitoring processes and the assumptions used in respect of demand-led growth. This view is subject to our outstanding work on the Transformation risk which we will consider in a later report.

SAVINGS PLANS AND MEDIUM TERM FINANCIAL PLANNING – PREVIOUSLY REPORTED IN JULY AND SEPTMBER 2018

Significant risk	Findings and conclusion
As set out in the audit plan dated February 2018 **Savings and medium term financial planning** You have set a balanced budget for 2018/19 which includes an overall increase in the total Council Tax of 4.20%, and savings of £4.9m. In addition, the budget proposals include a transfer of £5m from the New Homes Bonus reserve to the General Fund, the use of £3.6m reserves,. You have also set aside £13.4m for identified and unidentified corporate risks and pressures. Going forward you will need to identify further savings of circa £35m for 2019/20 and 2020/21. Your Medium Term Financial Strategy anticipates that post 2020 approximately £10m per year of savings will be required. In response to this risk we have: • Considered your arrangements to identify and deliver savings and efficiencies towards achieving a sustainable medium term financial position. • Updated our understanding of how you are working with partners in the local health economy to achieve savings.	**Summary findings** • For 2018/19, you have set a balanced budget, with generally robust underlying assumptions. • You have increased your share of council tax by 3.99% but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required. • Your Medium term financial strategy shows the budget has been balanced for 3 years with the use of reserves. • You will need to make savings of around £53.6m between 2019/20 and 2022/23 – a significant requirement which highlights further the point made in the previous section about the importance of specifically monitoring savings scheme delivery and understanding shortfalls, over and above the existing budgetary monitoring processes. Savings required in 2019/20 are higher than in previous years, when lower levels of savings were not delivered. • There are longer term pressures from demand led services that could continue to manifest in 2018/19 and beyond. • You have £13m of general fund reserves to cushion you against the on-going financial challenges that you face over the medium term. However, these represent only 1.4% of your annual spend, and should be used to invest in future transformation, rather than propping up budgetary overspends. • The first financial forecast for 2018/19 presented to the Public Accounts Select Committee up to May 2018 is forecasting a deficit of £14.8m, with a majority (£13.5m) again due to the Children and Young People directorate. This indicates weaknesses in the budget setting arrangements as the assumptions around the provision of children's social care appear not to have taken into account issues that led to similar overspends in 2017/18. This may indicate further improvements over the accuracy of activity assumptions are required. **2018/19 Budget Setting** You set a balanced budget for 2018/19 in February 2018. Reductions in Settlement Funding Assessment, inflation and service growth presented an overall budget gap of £8.6m to be funded from reserves. You have closed this through a £5.0m reserve transfer from the New Homes Bonus reserve to the General Fund for the third consecutive year and a further £3.6m one-off use of reserves. You have increased your share of council tax by 3.99% to provide an extra £10.2m, and identified planned savings of £4.86m. The New Homes Bonus (NHB) paid by government is expected to decrease by between a third and a half from its 2018/19 level of £6.9m. Whilst your New Homes Bonus reserve has increased in value in recent years despite regular transfers to the General Fund, the NHB received may soon drop below the transfer levels, and in the long term the use of this sort of transfer will become unsustainable. Schemes are reasonably well developed, and have been put in place for 2018/19. The structure enables you to focus on key streams and supports cross-cutting initiatives rather than top-slices to budgets. To maximise the impact of savings plans, project review should be incorporated more closely into the budget monitoring and outturn reports to ensure planned savings are delivering the desired effect. It is currently unclear from the budget report the extent to which overspends are being driven by purely demand led increases, against the success or failure of savings initiatives. **Medium Term Financial Strategy** Your latest Medium Term Financial Strategy (MTFS) is due to be published in July 2018. The financial outlook in the medium term remains very challenging for local government, with significant uncertainties over the economic and political environment. Beyond 2020 it is difficult to predict what the size of the challenge is as this will depend on the decisions of a future government. You have made prudent assumptions about your future funding, including the following: • Government will phase out the Revenue Support Grant • NNDR will be completely devolved to local government

SAVINGS PLANS AND MEDIUM TERM FINANCIAL PLANNING – PREVIOUSLY REPORTED IN JULY AND SEPTMBER 2018

Significant risk	Findings and conclusion
Savings and medium term financial planning Continuation of risk noted on the previous page	• Council tax increases continue to be capped below 2 per cent, with a precept for social care • The Collection fund will deliver a reducing surplus for the foreseeable future • Pay and non-pay expenses will be subject to 2-3% inflationary pressures • Pressures and risks growth of £6.5m - £7.5m for the three years of 2021/22 to cover additional expenditure associated with a growing, aging population, household growth, the impact of changes in legislation and regulations, and the impact of reducing preventative services in the early years of austerity

The July 2018 Medium Term Financial Strategy covers the four year period from 2019/20 to 2022/23. You have modelled best, worst and most likely case scenarios for this period. Comparing these saving scenarios to the ones in the July 2017 MTFS, you can see the impact the overspends in 2017/18 and the failure to meet savings targets has had in increasing the pressure over the next three year period. Under the above and other assumptions the range of estimates of future savings requirements (£m) is:

July 2017 MTFS	2018/19	2019/20	2020/21	2021/22	2022/23	Total	2019/20 to 2021/22		
Optimistic	20.77	10.31	6.99	8.73	-	46.80	26.03		
Main	21.28	10.85	10.04	9.41	-	51.58	30.3		
Pessimistic	24.85	14.63	17.19	12.74	-	69.41	44.56		
July 2018 MTFS		**2019/20**	**2020/21**	**2021/22**	**2022/23**	**Total**	**2019/20 to 2021/22**	**Increase in savings required**	
Optimistic	-	14.75	8.10	10.24	5.22	38.30	33.08	7.05	27%
Main	-	16.82	12.42	14.55	9.76	53.56	43.794	13.494	45%
Pessimistic	-	19.05	18.43	18.85	13.38	69.70	56.32	11.76	26%

In the July 2018 MTFS, between 2019/20 and 2021/22 the savings that are required to be found have increased by £13.5m, a 45% increase, compared to the July 2017 MTFS. This demonstrates the importance of having robust savings plans and delivering them in year rather than rolling them onto the next year when the ask may be more than can be managed.

Since 2015, your MTFS has made no allowance for inflation on non-pay expenses. This has meant that not only have you had to make savings year on year to offset losses in government funding, but that also cuts and service efficiencies have been required to absorb external inflationary cost pressures. This assumption has been removed from the July 2018 MTFS. A large element of your overspend pressures in recent years have related to 'needs led' statutory duties including supporting the most vulnerable, and sustained pressures arising from statutory duties relating to services such as waste and environmental health; the MTFS also assumes that these cost pressures will be met from your existing budgets. You have spent considerable effort seeking to mitigate these risks and it is important that you remain vigilant in how you monitor and manage these burdens.

The medium term financial plan is led by the Lewisham Futures Board, which develops savings options for the Mayor and cabinet to consider. Its focus has been on implementing the £21.3m savings for 2018/19. In a change from previous years, the current plan for 2019/20 and 2020/21 is not based around the 18 strategic work streams or themes that came from the Lewisham Future Board. The change of approach has been instigated by the new Chief Executive. It was felt the previous method had become overly complicated and lost some of the strategic value it was adding. The new method begins in July with Star Chambers overseen by the Executive Team challenging service leads on every aspect of their budgets. Detailed proposals for the cuts identified from these will be presented to members for scrutiny later in the year. Having made around £160m of reductions in expenditure in the eight years from 2010/11, the 'easy' savings and cuts have been made. Future savings will have to come from longer term projects, transforming how you provides services which requires up front investment to obtain future benefits. The effectiveness of your transformation governance is therefore essential to your future financial sustainability and achievement of challenging savings plans and budgets.

SAVINGS PLANS AND MEDIUM TERM FINANCIAL PLANNING – PREVIOUSLY REPORTED IN JULY AND SEPTMBER 2018

Significant risk	Findings and conclusion
Savings and medium term financial planning Continuation of risk noted on the previous page	The first financial forecast for 2018/19 presented to the Public Accounts Select Committee up to May 2018 is forecasting a deficit of £14.8m, with a majority (£13.5m) again due to the Children and Young People directorate. This indicates weaknesses in the budget setting arrangements as the assumptions around the provision of children's social care appear not to have taken into account issues that led to similar overspends in 2017/18, given how soon the forecast overspends arise following the setting of the budget. This may indicate further improvements over the accuracy of activity assumptions are required. Containing these budget pressures will also depend on the effectiveness of your transformation governance, delivery of savings and demand management and outreach schemes, to ensure budgets can be delivered within the growth assumptions. The medium term planning shows an improving outlook which is broadly in line with your high level thinking over council tax and growth plans. However, more savings are proposed to 2019/20 than have been in place in previous years. This is a significant risk, as you have not managed to deliver the lower level of savings proposed in 2017/18. In addition, there are longer term pressures from demand led services that could continue to manifest in 2018/19 and beyond.

Reserves and financial position

Despite the financial pressures that you have faced and your investments in supporting the borough, once useable earmarked reserves are added to your £13m of general fund reserves, your overall reserves position is relatively healthy, compared to many London Boroughs. As at 31 March 2018, you had total general fund reserves and earmarked reserves excluding schools reserves of £149.9m, compared to £145.9 as at 31 March 2017 and £148.7m as at 31 March 2016.

The following table sets out a summary of your reserves position and key financial ratios as at 31 March 2018 relative to other London Boroughs as per their draft published financial statements for 2017/18:

London Borough of Lewisham - financial position: key performance measures

Measure	London Borough of Lewisham	Average for London Boroughs	Ranking relative to other London Boroughs
Total general fund and non-schools earmarked general fund reserves as at 31 March 2018 (£m)	149,927	102,585	7 / 32
Total general fund and earmarked general fund reserves as at 31 March 2018 (£m)	173,123	112,862	7 / 32
Total usable revenue and capital reserves as at 31 March 2018 (£m)	347,452	253,530	7 / 32
Useable capital and revenue reserves as a percentage of gross service revenue expenditure	37.6%	28.9%	9 / 32
Current ratio (current assets / current liabilities)	2.00	1.50	5 / 32

This analysis highlights that as at 31 March 2018 your reserves level placed you in the top quartile of the 32 London Borough. Nevertheless, it is important that you take appropriate action to maintain your reserves position.

As it currently stands, your reserves level provides you with a measure of support in respect of the on-going financial challenges that you face over the medium term due to reductions in central government funding and forecast increases in demand for your core services. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary control going forward. Your reserves strategy could be enhanced; at the moment it does not set an explicit minimum level of General Fund reserves with which you are comfortable. In addition, the strategy should detail the plans you have over the use of the reserves and, given their one off nature, the 'return on investment' you hope to achieve from strategic investment of these reserves over the medium term to support your transformation programme and efficiency schemes.

SAVINGS PLANS AND MEDIUM TERM FINANCIAL PLANNING – PREVIOUSLY REPORTED IN JULY AND SEPTMBER 2018

Significant risk	Findings and conclusion
Savings and medium term financial planning Continuation of risk noted on the previous page	**Conclusion** The early appearance of forecast significant overspend on the revenue budget in 2018/19 in similar areas to 2017/18 suggests weaknesses in the accuracy of the assumptions in this area. Development of a more detailed Reserves Strategy would ensure one-off monies are used effectively to support the transformation needed to remain financially sustainable.

Action plan

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Recommendations	Response
1	As you re-design your programme governance arrangements, consider the role of your assurance functions in providing assurance over the programme as a whole, and with 'deep dives' as appropriate. Ensure there is sufficient segregation of duties between management and oversight of the programme (a level 2 line of defence), and independent assurance provided by audit functions (a separate, level 3 line of defence).	
2	Clearly annotate your overarching transformational strategy and vision so that all officers are clear on the aims and objectives and what the future service delivery entails.	
3	Ensure you consider fully the required skills, resource and expertise is required, and undertake a capability and skills audit against current establishment to identify potential skills gaps and mitigate the risks arising.	
4	Map interdependencies across projects.	
5	Prior to relaunching any of the paused projects detailed benefits realisation assessments need to be undertaken. Business cases should include a detailed assessment of strategic, financial and non-financial benefits to be gained and a clear implementation strategy (including required training) for realising said benefits.	
6	Ensure the Project Management Office is independent from day to day project activity, and plays an effective role in assuring information is accurate and supported before it is presented to the programme board.	
7	Ensure routine gateway reviews are undertaken at key stages of the programme and projects.	
8	Ensure a culture is in place which encourages "bad news", as well as "good news" to be reported.	
9	The transformation project needs to be aligned to your Medium Term Financial Strategy with clear financial analysis of the expected savings that will be generated from projects.	
10	Implement the new governance structures that will give senior management the strategic oversight and responsibility for delivering the transformation projects. Ensure risk identification is supported with appropriate skill-set and capability within projects, and that escalation and reporting arrangements are robust and effective.	
11	Undertake robust post implementation reviews across all transformation projects and ensure success factors and lessons learned are spread across projects.	
12	There may be lessons to be learnt in the recruitment of a replacement chief executive. Members should reflect on what those lessons may be and how future recruitment can be undertaken to minimise the risk of recurrence of the experience in 2018.	

Action plan previously reported in July and September 2018

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	● Medium	The savings programmes were not directly monitored, as monitoring was undertaken only on overall budgets. In our view, this results in a lack of transparency and clarity in identifying whether the overspends are the result of under-delivery of savings plans or genuine unavoidable pressures from demand increases. Without this clarity, you may not be able to properly assess the robustness of future plans and make an informed judgement as to the deliverability of the £13.0m of additional savings in the 2018/19 budget. This also risks hampering your ability to make informed decisions in response, and your ability to properly assess performance in delivering transformational savings.	We would recommend strengthening governance in this area by specifically monitoring the delivery of savings programmes and the success of the schemes involved and, importantly, where savings are not delivered as planned, identifying and explaining the reasons behind this. This will also enable you to determine whether overspends are due to failed savings programmes or deficiencies in the budget setting and delivery processes. It is important to understand these distinctions as the responses needed in each case may differ.
2	● Medium	The financial forecast reports contained mitigations that were expected to be achieved in the first half of the year but were not, which reduced the forecast deficit position until the end of the year. This prevented management and members from gaining a full understanding of the levels of and reasons behind overspends.	We recommend presenting more information around the mitigations included in the forecast outturn reports to enable closer scrutiny of these, to enable greater monitoring in respect of unexpected deterioration of the financial position at the end of the year.
3	● Medium	Your reserves strategy could be enhanced; at the moment it does not set an explicit minimum level of General Fund reserves with which you are comfortable. In addition, the strategy should detail the plans you have over the use of the reserves and, given their one off nature, the 'return on investment' you hope to achieve from strategic investment of these reserves over the medium term to support your transformation programme and efficiency schemes.	We recommend you develop a more comprehensive reserves strategy, detailing the plans you have over the use of the reserves and the 'return on investment' you hope to achieve from strategic investment of these reserves over the medium term. This would support one-off monies being used effectively to support the transformation needed to remain financially sustainable.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice