

# Auditor's Annual Report on London Borough of Hammersmith and Fulham

Interim Report

2020-21

August 2022



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

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



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## Appendices

- A – The responsibilities of the Council
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

# 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 Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

2020/21 was an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic.

We have not identified any significant weaknesses, but have identified 12 opportunities for improvement which are set out in detail within our report.

Criteria	Risk assessment	Finding
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but three improvement recommendations made.
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but four improvement recommendations made.
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but five improvement recommendations made.

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

# Executive summary



## Financial sustainability

The Council has a good track record of sound financial management and delivered an underspend of £0.3m in year, after taking into account central government funding for COVID-19. Overall we are satisfied that the Council had appropriate arrangements in place to manage the risks it faced in respect of its financial resilience. We have not identified any risks of significant weakness but have identified opportunities for improvement:

- The Council should develop a sustainable strategy for the Housing Revenue Account

The Council should report the following to Cabinet:

- a summary total of progress against the planned savings during and at the end of any given year
- the Treasury Management Annual Report, in line with the Council's Treasury Management Policy.



## Governance

Overall, we found no evidence of significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks. The Council operated under emergency decision making arrangements until virtual meetings could be introduced and produced a bespoke COVID-19 corporate dashboard and scorecard across 50 indicators to ensure effective governance. We have identified opportunities for improvement that the Council:

- reduce the number of risks on its Corporate Risk Register to a more manageable level as they should only be of the highest strategic and operational level
- should report capital outturn against the planned capital budget from the start of the year and ensure this budget more accurately reflects the expected capital spend in year
- ensure that its level of compliance with the CIPFA Financial Management Code is monitored and reported on to members, alongside action plans for individual services to work towards fully compliance
- review and improve the governance arrangements for the companies in which it has an interest, including clarifying the role of the Commercial Revenue Committee.



## Improving economy, efficiency and effectiveness

We did not identify any risks of significant weakness, but we have identified four areas for improvement. The Council should:

- ensure that performance against the Council's strategic objectives are reviewed by Cabinet in public meetings to facilitate openness and transparency and to enable public scrutiny
- develop a clear data quality strategy and supporting policy
- consider if the introduction of detailed benchmarking would be beneficial and explore the very high unit costs identified for:
  - Children social care
  - Adults social care
  - Environmental and regulatory services
  - Central services
  - Public health
- define its significant partnerships and develop a register that identifies the contribution that the partnerships makes to the Council's corporate objectives
- update its procurement strategy.



# Opinion on the financial statements

The 20/21 audit is ongoing due to national technical issues related to infrastructure assets as well as the resolution of some residual audit queries.





# Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its 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 each of these three areas, as well as the impact of Covid-19, is set out on pages 7 to 32. Further detail on how we approached our work is included in Appendix B.

# Financial sustainability



## We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these 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
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## Identifying and addressing financial pressures

### Revenue outturn

In September 2021 for the financial year ending 31 March 2021 the Council reported to Cabinet a revenue underspend of £0.3m against a budget of £164.1m. This underspend was as a result of underspends in all departments except for controlled parking and centrally managed budgets. The yearend performance was an improvement on the forecast outturn position reported throughout the year and was achieved due to the receipt of additional COVID-19 funding.

The Council planned to deliver £12.9m in savings and income generation. These savings were across all its services including council wide savings through the introduction of new ways of working.

Performance against planned savings was reported within the budget monitoring reports to Cabinet at month 2, 4, 6, 9 and outturn. This included a RAG rated analysis by individual Departments, but the position for the total savings delivered compared to planned was not reported.

The outturn report did not RAG rate or provide a summary of progress/delivery for the planned 2020/21 savings.

### Housing Revenue Account

The Council's HRA Financial Strategy is the Council's plan for its housing within the borough. Plans are not currently sustainable and funding is required from reserves. The Council should continue to develop a sustainable strategy for the HRA. In 2020/21 the Council budgeted for a HRA deficit of £7.924m. The Council achieved an outturn of £7.020m, £0.907m below the planned deficit.

## Capital outturn

The Council's total capital expenditure for the year was £139.9m and included £88.6m general fund and £51.4m Housing Revenue Account (HRA) capital expenditure. 62% of the original planned capital expenditure. The capital budget and monitoring are discussed in more detail on pages 15 and 16.

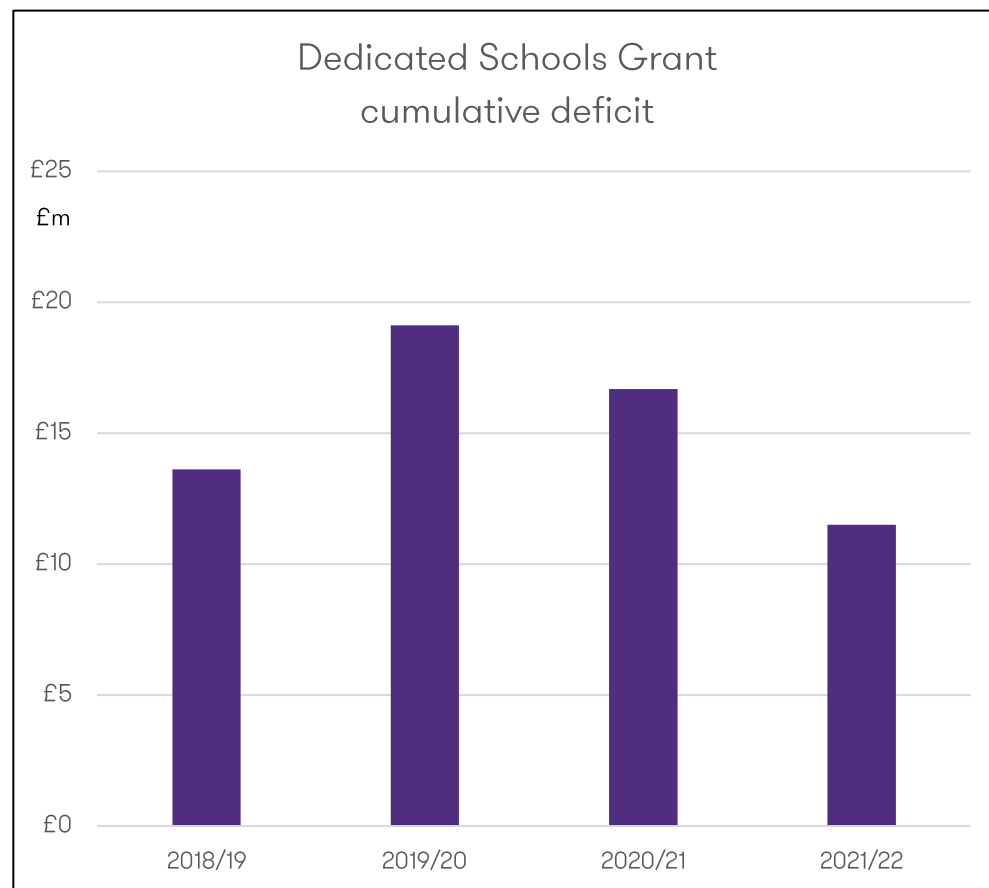
### Dedicated Schools Grant

The Dedicated Schools Grant (DSG) is the main source of income for schools. In common with other London Boroughs, the High Needs Block element of the DSG has come under increased pressure in supporting children with special educational needs and spend has been significantly higher than the funding provided by central government. This has led to a significant cumulative deficit on the grant.

There is a programme of work and action plan to reduce the underlying overspend in this area overseen by the Council's High Needs Block Board. During 2020/21, the Council was invited to participate in the Department for Education's (DfE) safety valve intervention programme. As a result of the negotiations, the Council entered into a grant funding agreement with the DfE which looks to bring in-year expenditure within the annual grant allocation and to eliminate the Council's historic deficit over a 5-year period. In 2021/22 the DSG received £4.55m Safety Valve Funding and achieved an underspend of £0.3m.

The chart on the next page illustrates the progress made up to 31 March 2022 and the reduction in the deficit.

## Identifying and addressing financial pressures

**Medium term financial planning**

The budget for 2021/22 was agreed by Full Council in February 2021. Full Council were also provided with the medium-term financial forecast for the next three years. Prior to this the medium term financial strategy (MTFS) was reviewed by the Public Services Reform Policy & Accountability Committee and the Finance, Commercial Revenue and Contract Policy & Accountability Committee.

The MTFS (2021/22) reported a revenue budget gap of £84.4mm from 2022/23 to 2024/25 years.

The MTFS and Budget were based upon the following decisions and assumptions, which in our view are reasonable based on the amount of uncertainty faced by the sector:

- Council Tax increase of 4.99% (including 1.99% for general purposes and 3% Adult Social Care Precept)
- limited increase in business rates with a freeze in 2021/22 and a 2% inflationary increase thereafter
- a 5% reduction per annum from 2022/23 onwards for fair funding and new homes bonus grant reforms
- a pay freeze was assumed although members were alerted to the risk that, as local government nationally has separate pay negotiations and agreements to central government, the Council may need to award pay inflation in 2021/22 in line with any national agreement
- a provision for contract inflation of £4.1m was made, of which £2.4m relates to social care with the Covid-19 pandemic increasing costs
- non-statutory fees and charges:
  - frozen for Adult Social Care, Children's Services and Housing
  - 1.7% uplift based on the July 2020 Retail Price Index, applied for other non-commercial and non-parking fees
  - commercial services that are charged on a for-profit basis, were reviewed on an ongoing basis in response to market conditions and varied as appropriate.

During 2020 as part of the Council's budget forecast and recovery and in response to financial uncertainty the Council undertook some financial modelling. This modelling considered five future financial scenarios. The best case assumed that COVID-19 would have a limited impact beyond 2020/21 with a shift towards more government funding. The worst case assumed that Covid-19 will result in a recession comparable to the early 1980s with an extended further period of austerity. This was reported to Cabinet in July 2020.

Since this financial modelling was undertaken the financial pressures that the Council now faces have increased considerably, with inflation over 9% and expected to continue to increase, increasing pay pressures and fuel and energy prices. Against the assumption that additional funding from central government is unlikely to increase in the next two years.



### Managing financial resilience

Section 25 of the Local Government Act 2003 requires that when a local authority is making its budget calculations, the Chief Finance Officer of the authority must report to the Council on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The Council's Director of Finance made her statement within the Council's budget report.

The key risks have been identified, quantified across four financial years (2021/22 to 2024/25) and reported clearly within budget report. The risks were quantified at £13.1m for 2021/22. Mitigating actions have also been identified. This approach enables the Council to assess if it has sufficient reserves to meet these risks should the need arise.

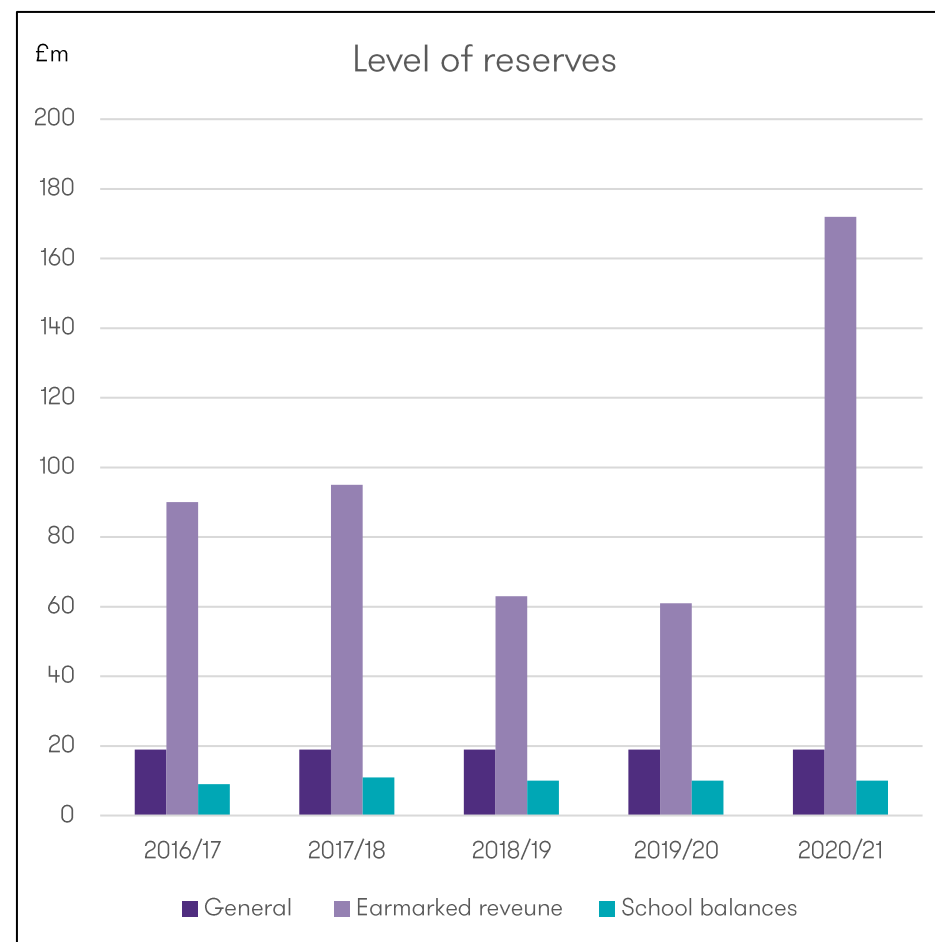
The general fund reserve is to cover uncertainties in future years' budgets, whereas earmarked reserves are set aside for specific purposes. The Council has a Reserves Strategy and Action Plan which is reviewed annual and agreed as part of the budget setting process.

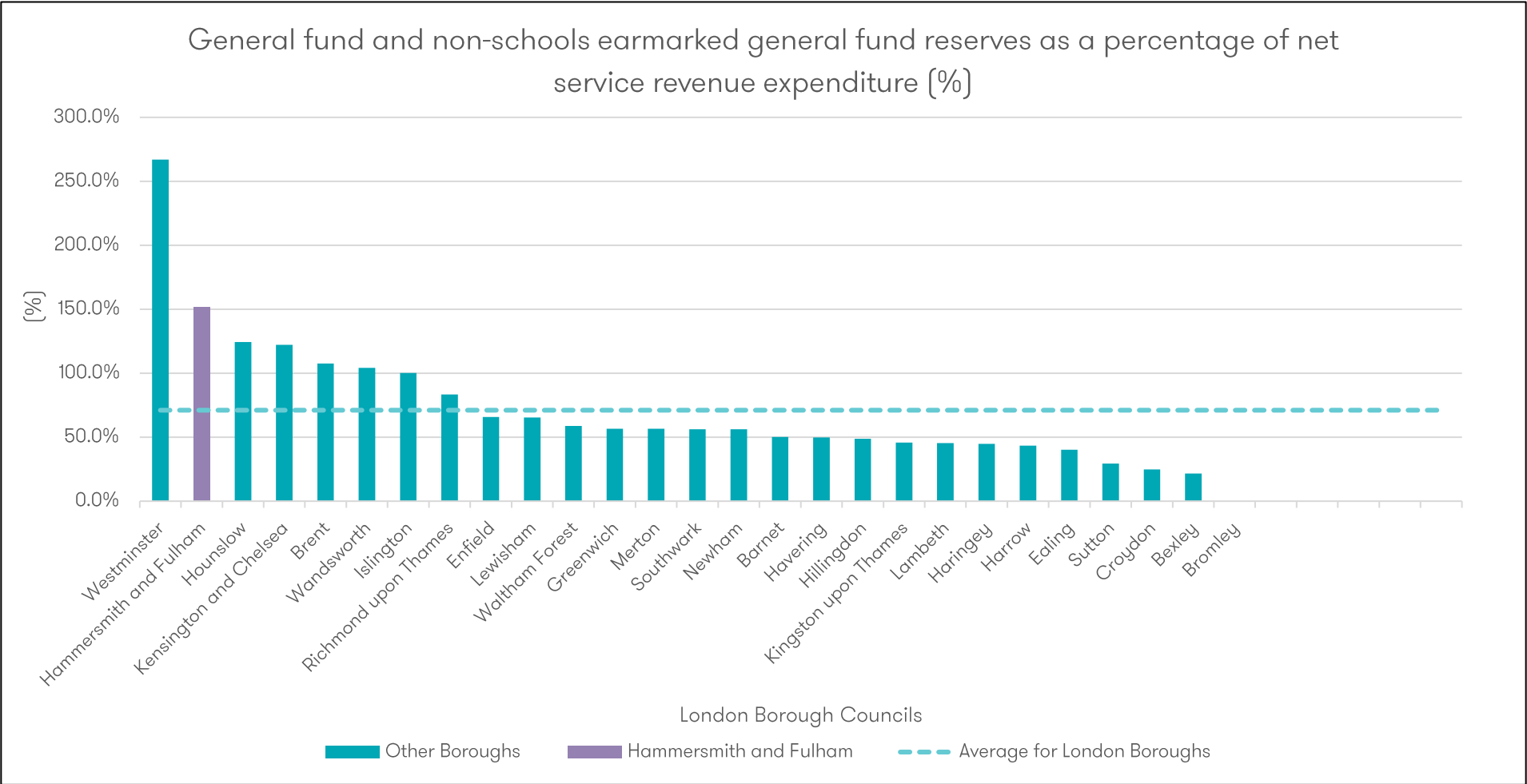
The Council has compared its level of reserves with other London Borough's and considers that its reserves are slightly below average. The Council has consistently maintained its unearmarked general reserves at £19m for over five years, 3.6% of the Council's gross budget, £528m.

The Council's earmarked reserves have seen a slight reduction in recent years, but has increased significantly in 2020/21. This increase is temporary and is largely due to the receipt of government grants that will be deployed in 2021/22. Although the Council has been able to make a one-off contribution of £7.2m reserves to strengthen the Council's financial resilience.

The table opposite illustrates the changes in reserves at the Council since 2016/17. Whereas the table overleaf compares the total general fund and non-schools earmarked reserves as a percentage of net service revenue expenditure. This chart indicates that the level of reserves are prudent in comparison to the other London boroughs.

We consider that these levels of reserves are sufficient to maintain financial sustainability as the Council continues to face increasing financial pressures, due to ever-increasing inflation, expected pay increases and escalating fuel and energy process..





### Financial planning - consistency with other plans

Ensuring the Council's financial plans are consistent with its workforce strategy and plans ensures that workforce financial pressures are understood and reflected. The Council have not provided us with a people strategy and as a result we are unable to ensure if the financial plans are consistent.

The Council has formally adopted CIPFA's Code of Practice on Treasury Management and has set its strategy within the Council's Treasury Management Strategy. The 2020/21 strategy was agreed by Cabinet in February 2020.

A Treasury Management mid-year statement was issued to the Audit Committee in December 2020 and to Cabinet for review in February 2021. This was at the same time as the 2021/22 Treasury Management Strategy was issued. The Treasury Management Annual Report report was presented to the Council's Audit Committee in September 2021, the annual report was not presented to Cabinet. The Council's Treasury Management Strategy requires that the annual report/outturn position should be provided to Cabinet as well as Audit Committee.



# Improvement recommendations



## Financial sustainability

<b>1 Recommendation</b>	The Council should develop a sustainable strategy for the Housing Revenue Account.
<b>Why/impact</b>	A sustainable strategy would reduce the reliance upon reserves.
<b>Summary findings</b>	The Council's HRA Financial Strategy is the Council's plan for its housing within the borough. Plans are not currently sustainable and funding is required from reserves.
<b>Management comment</b>	The Council has a well developed 30 year HRA Business Plan (this is an integrated plan including revenue/capital investment and balance sheet) and is based on the financial models developed by external market leaders. The HRA BP is updated and reported annually to Cabinet (usually in February). The Council recognises the considerable challenges in the strategic operating environment for the housing service and the need to ensure the financial resilience and sustainability of the HRA. A Housing Transformation Programme has been established and other mitigating actions are being developed for implementation during the latter part of 2022/23.



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

# Improvement recommendations



## Financial sustainability

<b>2 Recommendation</b>	The Council should provide to Cabinet a summary total of progress against the planned savings during and at the end of any given year.
<b>Why/impact</b>	Regular reporting enables Cabinet to effectively assess progress. Cabinet will not be aware of what the percentage of the savings planned for 2020/21 were delivered in year.
<b>Summary findings</b>	Performance against planned savings was reported within the budget monitoring reports to Cabinet at month 2, 4, 6, 9 and outturn. This included a RAG rated analysis by individual Departments, but the position for the total savings delivered compared to planned was not reported.  The outturn report did not RAG rate or provide a summary of progress/delivery for the planned 2020/21 savings.
<b>Management comment</b>	It is reassuring that it is noted that the performance against planned savings is reported as part of the CRM Reports (including a RAG Rating). The Outturn Report for 2022/23 will be further developed in this regard (as the report for 2021/22 was already in the process for being reported to Cabinet in early September and marginally preceded this AAR Report for 2020/21).



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



# Improvement recommendations

## Financial sustainability

<b>3 Recommendation</b>	The Treasury Management Annual Report should be presented to Cabinet.
<b>Why/impact</b>	Providing the report to Cabinet would have enabled the Committee to review and challenge performance in 2020/21
<b>Summary findings</b>	A mid-year statement was issued to the Audit Committee in December 2020 and to Cabinet for review in February 2021. The Treasury Management Annual Report was presented to the Council's Audit Committee in September 2021, the annual report was not presented to Cabinet. This was not in line with the Council's Treasury Management Strategy that required the annual report to be presented to both Audit Committee and Cabinet.
<b>Management comment</b>	Agreed - This Treasury Management Outturn Report for 2021/22 is being scheduled for Cabinet (expected October 2022).



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

# 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 effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

## Risk management

The Council has a risk management strategy statement that was agreed by The Council's Audit, Pensions and Standards Committee (APSC) in July 2019. This was introduced following the disaggregation of services from Westminster City Council and Kensington and Chelsea London Borough Council.

Guidance is available to staff, although the detailed guidance has yet to be reviewed. This was planned for 2020, but was delayed due to COVID-19. We understand that this is scheduled for 2022/23.

The APSC is responsible for reviewing the Council's Corporate Risk Register and in 2020/21 the Committee reviewed the corporate risk register at three of the four meetings held during the year.

The risk registers reported to APSC include a description of the risk, mitigating actions, and a RAG rated risk score derived from the severity and likelihood of the risk occurring both before and after the mitigating actions are taken into account. A risk owner is assigned to each risk. However, at the beginning of the year we the corporate risk register included 67 risks and eight opportunities. In our experience this is too many to enable members to effectively review and provide assurance. We note that in the following financial year this had reduced to 32 risks.

From our work we have not identified any significant areas of weakness in the Council's arrangements to manage and report risk. We have made an improvement recommendation to consider reviewing and reducing the number of strategic risks.

## Internal control

Internal Audit reported on three occasions to the APSC and provided an annual report and opinion, update reports and the internal audit plan. The APSC also approved the Internal Audit Charter and Strategy.

The Internal Audit Service undertook a self-assessment to verify compliance with the Public Sector Internal Audit Standards, this identified general compliance with the Standards. Some improvements in reporting and planning were identified which are being implemented in 2021/22.

For 2020/21 sufficient work was undertaken to enable the Director of Audit, Fraud, Risk and Insurance to provide a 'reasonable assurance' opinion. Based on the reviews undertaken there was an increase in the number of audits receiving 'substantial' and 'reasonable' assurance' compared to 2019/20.

The Council had the following policies to prevent and detect fraud:

- Anti-fraud and corruption strategy
- Whistle-blowing
- Member and staff codes of conduct as set out within the constitution.

Anti-fraud work and investigations were undertaken by the Corporate Anti-Fraud Service (CAFS). During the financial year 2020/21, CAFS investigated 426 cases, including 289 new referrals, and concluded 165 investigations. The annual report of the CAFS provided updates on both anti-fraud and corruption strategy and the whistle-blowing policy

From our work we have found no areas of significant weakness in the management and reporting on internal control and the prevention and detection of fraud.

### Budget setting, control and monitoring – revenue

The 2021/22 budget setting process began in early 2020 with challenge meetings held between finance staff and departments to manage inflation and growth bids. These early presentations included a range of scenarios and differing variables such as the level of funding, impact of COVID-19 and inflation. The process then began to identify savings to meet the expected budget gap, with the starting point being that departments would contain inflation and growth pressures.

Throughout the process regular updates were provided to SLT and Cabinet. In July 2020 SLT reviewed the savings proposals and in October the proposals were reviewed by Cabinet. This was followed by the Commercial Revenue and Contract Policy & Accountability Committee in January 2021 and was finally agreed by Full Council in February 2021 having been previously presented to the Strategic Leadership Team (SLT) and Cabinet. This process enabled all stakeholders to be engaged and Cabinet and scrutiny to understand the financial pressures.

The Council operated a formal corporate revenue monitoring process during the year. Budget monitoring reports were presented to Cabinet four times during 2020/21 in addition to the year-end outturn report. In preparation for this, each department completed an appendix explaining and corroborating their budget variances, and highlighting action plans to address these. The variance analysis was then discussed at departmental management team meetings, which included heads of finance, and was consolidated into formal reports for Council-wide consideration by the central finance team. These reports were then reviewed and scrutinised by SLT before being presented to Cabinet. Budget monitoring information and dashboard was also available in real time through the use of Power BI.

During the year, in-year forecasts and variance were actively monitored, this was especially important as a result of changes in forecasts arising from the ongoing trajectory of the COVID-19 pandemic. Early forecasts were predicated on given levels of income and expenditure which transpired to fluctuate significantly during the period. Additional reports were presented throughout the year to the Finance Policy and Accountability Committee, as well as the monthly returns to MHCLG (now DLUHC) around expenditure and lost fees and charges income. An update was provided by the Director of Finance to the SLT every 2-3 months to ensure that all senior officers were aware of the specific impact of COVID-19 on the Council's finances. Regular briefings were also given to the lead member for finance, and the Director of Finance also met periodically with the Council leader.

### Budget setting, control and monitoring – capital

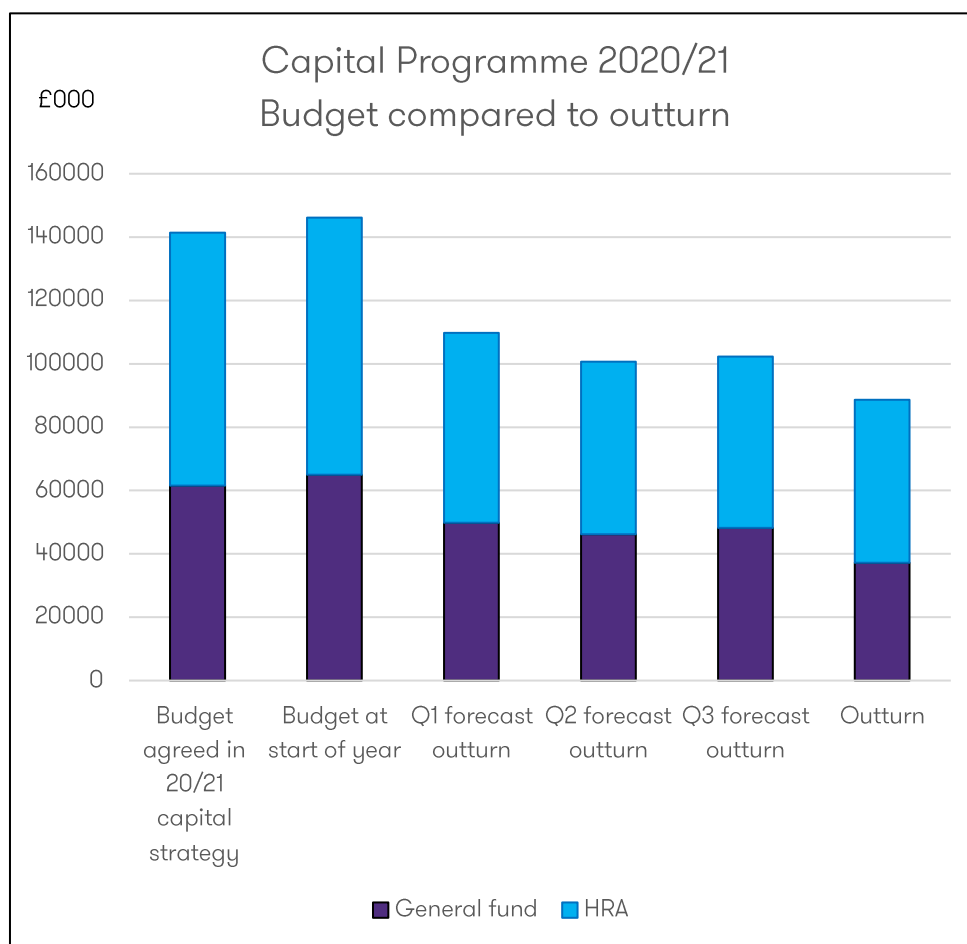
The capital strategy for 2021/22 and the capital programme for 2021/22 to 2024/25 was agreed by Full Council in February 2021 at the same meeting as the revenue budget. The Council programme agreed was as follows:

Cap Expenditure	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Cumulative Total £m
General Fund	87.9	58.1	7.3	4.8	158.1
HRA	74.2	66.3	74.5	32.6	247.6
Total	162.1	124.4	81.8	37.4	405.7

operational flexibility, for taking forward the major projects set out in Capital Strategy. However, to access this budget Cabinet approval is required and an appropriate business case.

Cabinet received quarterly budget monitoring reports for capital. These reports included the general fund position and the Housing Revenue Account (HRA). For both elements of the capital programme at each quarter the Council compared the forecast outturn to the previous quarters actual position, after taking into account slippage from previous years and any additions or reductions. This approach makes it more difficult for the reader to see the amount of slippage that has occurred compared to the original budget. For 2020/21 the capital outturn was 39% (£57.6m, general fund and HRA combined) below the planned spend at quarter 4 of 2019/20. This is illustrated in the chart overleaf. We recommend that the Council should report capital outturn against the planned capital budget at the beginning of the year and ensure this budget more accurately reflects the expected capital spend in year. Whilst we understand that capital expenditure has been impacted by COVID-19 the current approach does not encourage accurate profiling and forecasting throughout the year.

The capital monitoring reports also include the Council's capital finance requirement across the four years of the capital programme for both the general fund and the HRA.



### Monitoring Standards

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, such as the Monitoring Officer and the Section 151 Officer. During our review we are not aware of any instances where officers or elected members have not complied with the necessary standards and no evidence of significant non-compliance has been identified through procedures undertaken, through inquiry with the Director of Audit, Fraud, Risk and Insurance, review of Internal Audit reports, review of Council and Committee minutes and papers or through review of the Council's Annual Governance Statement.

The SLT assurance board is the key mechanism for monitoring of compliance at a Council-wide level. This comprises of Directors and Associate Directors from across directorates, with assurance reports being presented from attendees including performance across a suite of performance indicators around compliance and specific issues, in particular (for instance) in relation to Health and Safety. This has recently included a risk assessment model in terms of new ways of working following the Covid-19 pandemic. The SLT assurance board is attended by the Director for Audit, Fraud, Risk and Insurance who has oversight of compliance across the Council.

The Council's constitution has a section relating to Codes and Protocols which sets out general behaviour and principles expected of members and officers. This appears to be consistent with expectations observed across the sector.

### Informed decision making

SLT also has a number of meetings to deal with key decisions, such as the business meeting, assurance board and contracts assurance board, to maintain oversight of issues which are then communicated to and discussed with members at Cabinet meetings.

Individual Cabinet members chair boards relating to their portfolios. Cabinet members also meet together as part of the regular 'political cabinet' meeting which is an informal meeting of the Cabinet to review all decisions which will eventually be considered by the formal public Cabinet meeting or other forums such as full Council, to ensure transparency and ensuring that all decision-makers have sufficient opportunity to review and feed back. This is paralleled by arrangements in place relating to key decisions taken by individual Cabinet members.

## Informed decision making continued

In addition to decision-making committees, the Council also has a number of overview and scrutiny committees known as 'Policy and accountability' committees (PACs) for different directorates, to ensure that decisions are subject to adequate challenge and review prior to being taken. The Council's committees make use of various report templates which are structured in such a way to ensure that relevant considerations and impacts are made, depending on the type of decision required.

Senior officers at Assistant Director level will attend different cabinet member briefings each month to ensure consistency of communication.

Post-decision scrutiny is also undertaken for instance as significant projects are in progress. For instance, with the Council's redevelopment of its Civic Campus, the relevant PAC reviewed every aspect of the project such as finances, contract etc. as the project was in progress and held officers to account.

For cross-cutting areas such as budget-setting, joint scrutiny is undertaken whereby departments come together and present the budget to the members, with the budget as a whole then being subject to challenge, but each member observing from the perspective of their own portfolio.

We are not aware of any significant or repeated departures from the Prudential Code, Treasury Management Code or departmental statutory guidance. 2020/21 was the first year of implementation of the CIPFA Financial Management Code (FM Code), with local authorities being required to demonstrate progress towards compliance by 31 March 2021. In comparison to other London Councils, there has been limited if any reporting to members with regard to the Council's compliance with the FM Code or of actions required to move the Council towards full compliance as is required in 2021/22.

We consider that the Council has adequate arrangements in place and we are not aware of any decisions that were not supported by appropriate evidence, challenge and transparency.

Two employment tribunals have been held in 2021/22. We are in discussion with the Council to better understand these arrangements, but as these decisions were made in the following audit year we will review these arrangements when we undertake our 2021/22 value for money review.

## Governance of subsidiaries

The Council has an interest in a range of companies, both wholly owned companies and joint ventures. Whilst the financial arrangements of these companies is not consolidated within the Council's statement of accounts as they are not considered material, the governance of these companies remains important as there remains both a financial risk and a reputational risk.

We understand that the Commercial Revenue Committee acts as the shareholder although this Committee has only met three times in 2021. This committee has been focused on the dissolution of two joint ventures, but has not considered other reserve matters decisions. We understand that reserved matter decisions have been taken by Cabinet member portfolio leads. In additional business plans for these companies may not have been reviewed and approved annually.

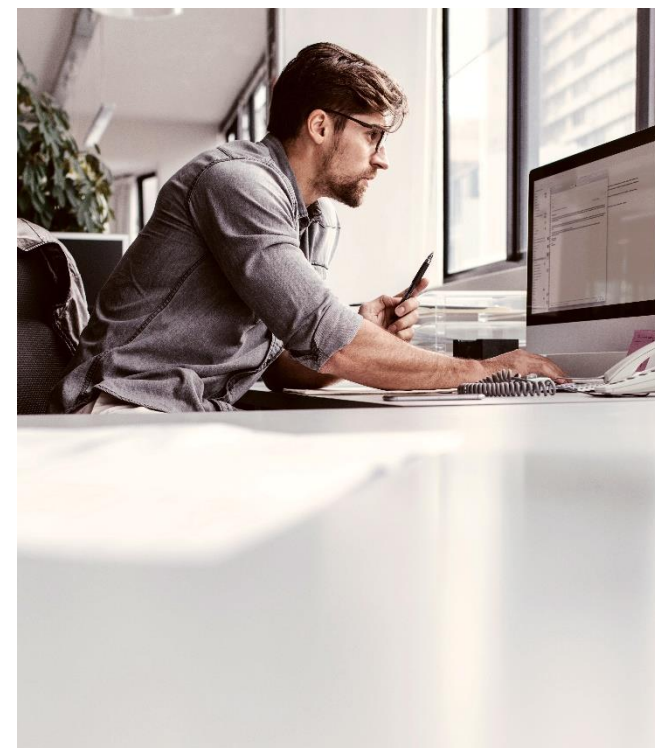
We recommend that the Council should review and improve the governance arrangements for the companies in which it has an interest, including clarifying the role of the Commercial Revenue Committee.



# Improvement recommendations

## Governance

<b>4 Recommendation</b>	The Council should review its Corporate Risk Register and consider if all the risks are strategic and if the number of could be reduced.
<b>Why/impact</b>	Reducing the number of risks would enable the APSC to effectively review and provide assurance on the strategic risks
<b>Summary findings</b>	During 2020/21 the corporate risk register included 67 risks and eight opportunities. In our experience this is too many to enable members to effectively review and provide assurance. We note that in the following financial year this had reduced to 32 risks.
<b>Management comment</b>	Agreed - This has already been addressed in 2021/22 and will be continuously reviewed.



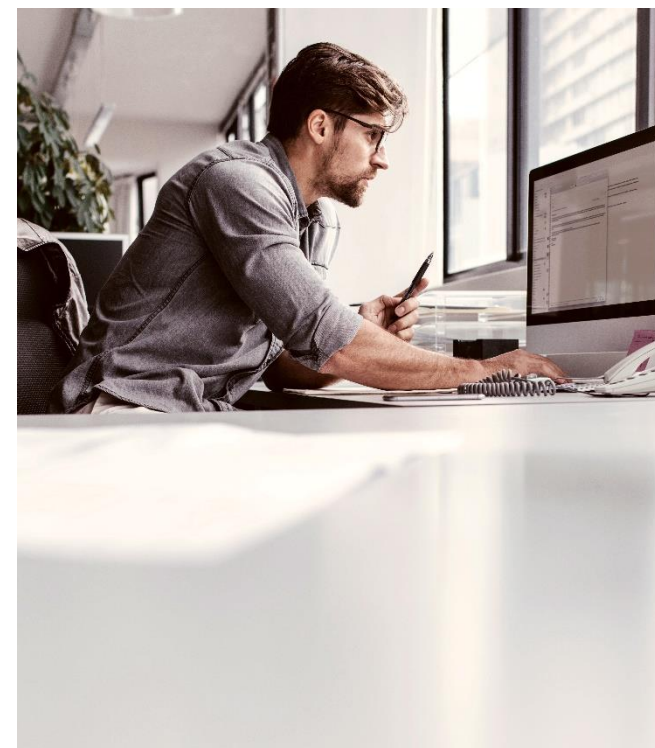
The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



## Governance

<b>5 Recommendation</b>	The Council should report capital outturn against the planned capital budget from the start of the year and ensure this budget more accurately reflects the expect capital spend in year
<b>Why/impact</b>	Reprofiling and forecasting the capital budget every quarter does not encourage accurate forecasting.
<b>Summary findings</b>	Cabinet received quarterly budget monitoring reports for capital. These reports included the general fund position and the Housing Revenue Account (HRA). For both elements of the capital programme at each quarter the Council compared the forecast outturn to the previous quarters forecast, after slippage from previous years and any additions or reductions. This approach makes it more difficult or the reader to see the amount of slippage that has occurred from the original budget. For 2020/21 the capital outturn was 39% (£57.6m, general fund and HRA combined) below the planned spend at quarter 4 of 2019/20.
<b>Management comment</b>	Capital Programmes are complex and often affected by procurement, planning, public consultation, funding and financing considerations. As a consequence the Council adopts a formal quarterly review process to re-align budgets as necessary. It would not be appropriate to report the outturn against the original approved budget although, the outturn could be reasonably compared to the Quarter 3 approved budget. We will consider this for 2022/23 (as the report for 2021/22 was already in the process for being reported to Cabinet in early September and marginally preceded this AAR Report for 2020/21).



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

# Improvement recommendations

## Governance

- 6 Recommendation** The Council should ensure that its level of compliance with the CIPFA Financial Management Code is monitored and reported on to members, alongside action plans for individual services to work towards fully compliance.

Steps should be taken to ensure that compliance is owned throughout the organisation and not viewed as solely the responsibility of the finance team.

### Why/impact

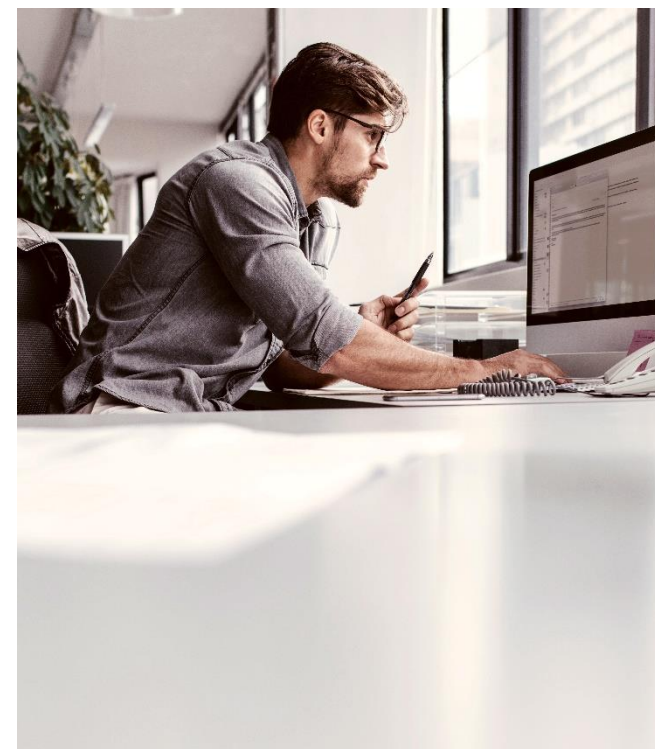
These improved arrangements should ensure the Council achieves compliance in an effective manner.

### Summary findings

2020/21 was the first year of implementation of the CIPFA Financial Management Code (FM Code), with local authorities being required to demonstrate progress towards compliance by 31 March 2021. In comparison to other London Councils, there has been limited if any reporting to members with regard to the Council's compliance with the FM Code or of actions required to move the Council towards full compliance as is required in 2021/22.

### Management comment

The Council adopts the principles of the CIPFA FM code and will consider the most appropriate way that its performance against the Code is included as part of the management accounting reporting to Members.

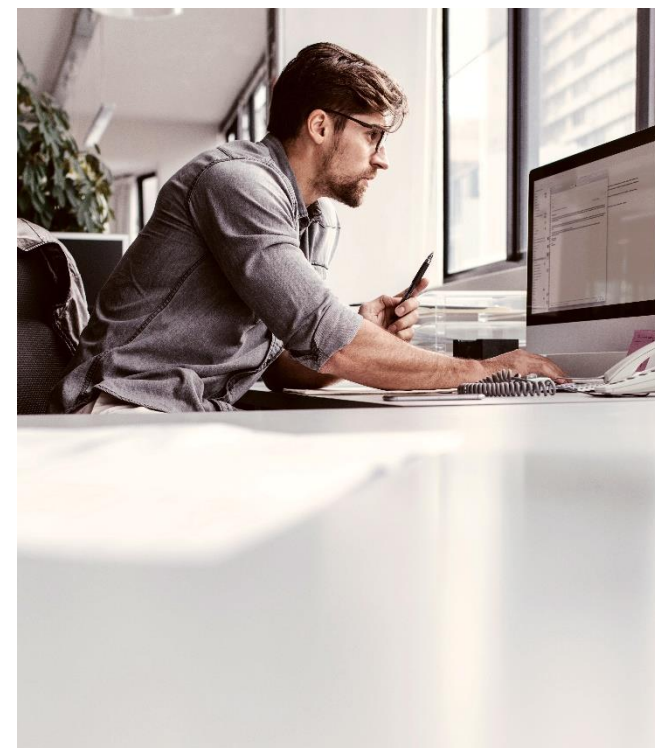


The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations

## Governance

<b>7 Recommendation</b>	The Council should review and improve the governance arrangements for the companies in which it has an interest, including clarifying the role of the Commercial Revenue Committee.
<b>Why/impact</b>	Effective governance protects the Council and enables the company to operate and deliver in line with the Council's expectations.
<b>Summary findings</b>	The Commercial Revenue Committee acts as the shareholder although this Committee has only met three times in 2021. This committee has been focused on the dissolution of two joint ventures, but has not considered other reserve matter decisions. We understand that reserved matter decisions have been taken by Cabinet member portfolio leads. In additional business plans for these companies may not have been reviewed and approved annually.
<b>Management comment</b>	This matter is recognised and is being developed [it should be noted that the Commercial Revenue Committee has not been convened in 2022].



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

# 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, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## Performance management

The Council set out its vision and priorities within its Business Plan 2018-2022. This document sets out what the Council aims to achieve by 2019, 2020 and 2022. The Council is currently developing a new Business Plan that will look at the next four years. The aim is to have the first years objectives agreed by September 2022 and the remaining three years will be agreed and be aligned with the MTFS.

The Council had a corporate performance framework, in place during 2020/21 however, due to COVID-19 this was suspended for quarter one and a range of performance reports specifically for COVID-19 were introduced. These included in depth weekly and fortnightly reports that were managed by the business intelligence team. Live dashboards were also used and covered a wide range of information and indicators. SLT were also updated in October 2020 on the Covid-19 performance reporting that was being undertaken.

Quarterly (except for quarter one) performance reports were presented to SLT and Cabinet at closed meetings. Quarter one was not presented as arrangements were temporarily suspended due to COVID-19. These reports included an assessment of performance against the Business Plan commitments and operational performance. Performance was not been reviewed at public Cabinet meetings.

We consider that adequate arrangements were in place to monitor performance but that additional improvements are made. We recommend that the Council refreshes its Business Plan for 2022 to 2026 and that performance by the Cabinet is reviewed in a public meeting to facilitate openness and transparency and to enable public scrutiny.

## Data quality

The Council obtains its performance information from a range of sources and gains assurance over the accuracy of data it uses by:

- the widespread use of business systems across the authority, controls around these systems and the expertise and experience of those producing performance reports
- annual programme of internal audits/ advisory audits
- validation/ monitoring of performance management frameworks and information
- regular engagement of finance business partners with their service areas around spend/ in-year budget forecasts and regular reporting of financial matters to Finance SLT, SLT and onto Council and its sub-committees
- the process of approval/ clearance of reports to member committees, including through formal governance boards e.g. SLT Assurance for Audit Committee and SLT for reports to Full Council.

The Council does not have a data quality strategy or a supporting data quality policy.



## Benchmarking

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can identify areas for improvement and also provide targets to work towards.

Benchmarking was undertaken as part of our VfM work. We used our management tool 'CFO Insights' and compared the units costs for a range of services. This identified five areas where the unit costs were very high in comparison to other unitary councils:

- Children social care
- Adults social care
- Environmental and regulatory services
- Central services
- Public health.

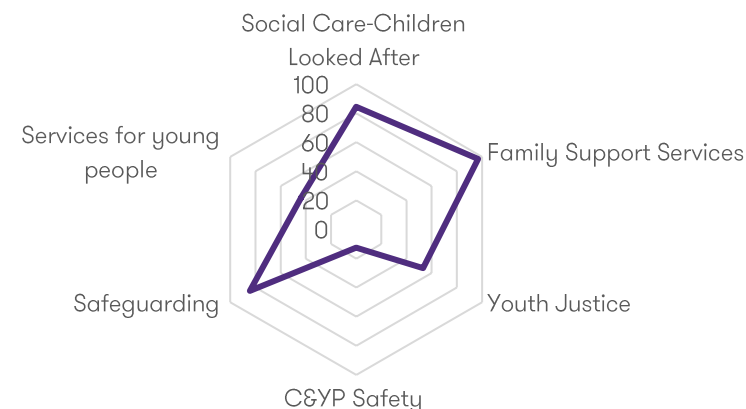
The Council has participated in benchmarking, having used Local Authority Performance Solution and the Local Government Associations benchmarking tools.

The charts opposite illustrate the areas of spend that have contributed to these high unit costs, within two high demand areas. Whilst, these benchmarks are only able to provide an indication of where costs are high, they do provide an indication of where further exploration of these costs could identify potential efficiencies and savings for the Council. We have raised an improvement recommendation that the Council should consider benchmarking and explore the high unit costs within these services.

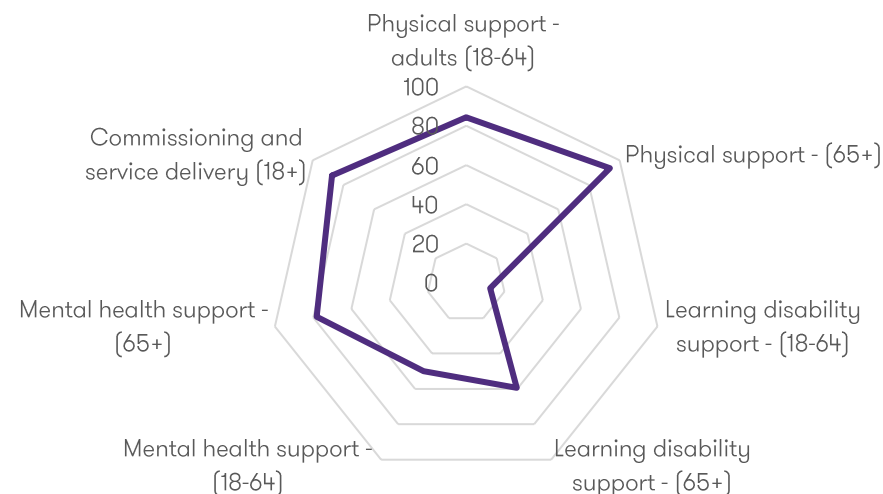
On the spider charts a rank of 50 represents the group median. The group in this case is all London Boroughs. If a measure is closer to the outside of the chart it would be classed as 'very high cost', whereas if the line is closer to zero, then it would be classed as 'very low cost' in comparison to the group.

The data is based on the 2020/21 Revenue Outturn submissions to the government.

Children's Social Care Unit Costs £/head of population aged 0-17



Adult Social Care Unit Costs £ per head of population



## Partnerships

The Council's Business Plan 2018-2022 identifies where partners contribute to the Council's objectives and has named a number of specific partnerships which will contribute.

The governance relating to the partnerships in which the Council was involved is varied and depends on the nature of the partnership. Those partnership that the Council considered to be of greatest importance usually will have member involvement, such as Health and Wellbeing Board is overseen by the lead member for health. Alternatively a Director will lead, such as the Director of Social Care in relation to the NHS.

These arrangements are not dissimilar to other local councils, but what we have found is that a number of councils are defining their significant partnerships and developing partnership registers where the importance of partnerships and the contribution that individual partnerships make to the council's corporate objectives can be evaluated and documented. The Council has not defined its significant partnership and does not have a register of its significant partnerships.

We recognise that the Council has utilised a range of partnerships during the COVID-19 pandemic and on the back of joint working has also strengthened existing relationships and partnerships.

We have not identified any significant weaknesses in the Council's partnership arrangements we consider that the Council would benefit from defining its significant partnerships and developing a register that identifies the contribution that the partnerships makes to the Council's corporate objectives.

## Procurement and contract management

In 2020/21 the Council did not have an up to date procurement strategy, its strategy was dated 2009-2014. The Council is in the process of developing its procurement arrangements, it has recently appointed an Assistant Director responsible for procurement and commercial services and is in the process of introducing a centralised approach to procurement and intends to update its procurement strategy. The Council is also looking to develop a category management approach and category plans.

Cabinet approved a Social Value Strategy in May 2020, which stipulated that all tendered contracts above £100,000 have a minimum of 10% of the total score allocated to Social Value, to increase to 20% by 2023.

The Council has contract standing orders which sit within its Constitution. The Council has a Contract Assurance Board (CAB) an officer board which was responsible for approving all contract awards above £100,000, instead of SLT. The CAB is also responsible for reviewing and approving contract waivers and breaches and ensuring the Council complies with procurement legislation and standards.



# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>8 Recommendation</b>	The Council should ensure that performance against the Council's strategic objectives are reviewed by Cabinet in public meetings to facilitate openness and transparency and to enable public scrutiny.
<b>Why/impact</b>	Public meetings enable public scrutiny and demonstrate that the Council is open and transparent about its performance.
<b>Summary findings</b>	The Council set out its vision and priorities within its Business Plan 2018-2022. It includes what it intends to deliver to achieve its priorities but does not extend beyond 2022. Performance against the priorities was reviewed quarterly by SLT and Cabinet within closed private meetings.
<b>Management comment</b>	A new Business Objectives Plan for 2022+ is being developed and the initial consideration of delivery priorities is scheduled for consideration by Cabinet in September 2022. It will continue to be reviewed by SLT and Cabinet and may be periodically considered at formal meetings.



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

# Improvement recommendations



## Improving economy, efficiency and effectiveness

**9 Recommendation** The Council should develop a clear data quality strategy and supporting policy.

### Why/impact

A data quality policy would set out the Council's approach to continually improving the quality of data required to support good decision making.

A data quality policy should include:

- definition of data quality and why it is important
- roles and responsibilities, including members, senior officers and individual employees
- data quality objectives
- monitoring arrangements
- arrangements for data sharing.

### Summary findings

The Council does not have a data quality strategy or supporting data quality policy.

### Management comment

This issue relates more to policies rather than concerns on the actual quality of data (the matter is being discussed separately and directly with GT by Senior Officers).



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

# Improvement recommendations



## Improving economy, efficiency and effectiveness

**10 Recommendation** The Council should consider if the introduction of benchmarking would be beneficial and explore the very high unit costs identified for:

- Children social care
- Adults social care
- Environmental and regulatory services
- Central services
- Public health.

### Why/impact

Benchmarking enables services to be compared and potential savings and efficiencies to be identified.

### Summary findings

Benchmarking indicates that the Council has very high unit costs in the areas listed above.

### Management comment

The Council would indicate that benchmarking does not fully take into account policy choices and priorities that can affect the delivery of services and therefore has limitations. Nonetheless, the Council ran a Zero Based Budget (ZBB) and efficiency programme from April 2019 – July 21. The programme undertook fundamental service reviews (vertical lines of business and budget) and considered the Council's entire budget from four horizontal cross cutting perspectives; pay bill (including our operating model for management), procured goods and services, sundry income and commercial opportunities and discretionary spend.

(see next slide)



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



# Improvement recommendations



## Improving economy, efficiency and effectiveness

### Management comment (continued)

We joined the GT benchmarking club to support the programme which was useful to provide some high level pointers, but needed to do bespoke research to provide the fuller picture needed to understand and manage high costs. Benchmarking and higher spend areas were at the front and centre of the programme. In particular;

- We undertook a substantial review of demand and cost management across adult and children's social care with Impower
- Our entire regulatory services portfolio were reviewed
- All central services were reviewed including communications, governance, human resource management and financial management and substantial savings opportunities set out and pursued
- IT running services were not prioritised because running costs were competitive, the service was managing costs in a very mature way (delivering large scale savings on contracts) and a strategic position on the portfolio of development was required
- A business case for reviewing discretionary service spend including substantial aspects of public health was developed

Intelligent use of benchmarking within the context of a ZBB service review standard has been introduced. This recommendation should therefore be dropped or reframed to reflect the recommendations set out in the programme closure report to sustain and embed this approach.



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

# Improvement recommendations



## Improving economy, efficiency and effectiveness

<b>11 Recommendation</b>	The Council should define its significant partnerships and develop a register that identifies the contribution that the partnerships makes to the Council's corporate objectives.
<b>Why/impact</b>	Defining its significant partnerships and better understanding their contribution to the Council's objectives will enable the Council to evaluate and assess their level of contribution.
<b>Summary findings</b>	The Council has not defined its significant partnership and does not have a register of its significant partnerships.
<b>Management comment</b>	This matter has been recognised and a Register is in the process of being developed (by end of the financial year).



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

# Improvement recommendations



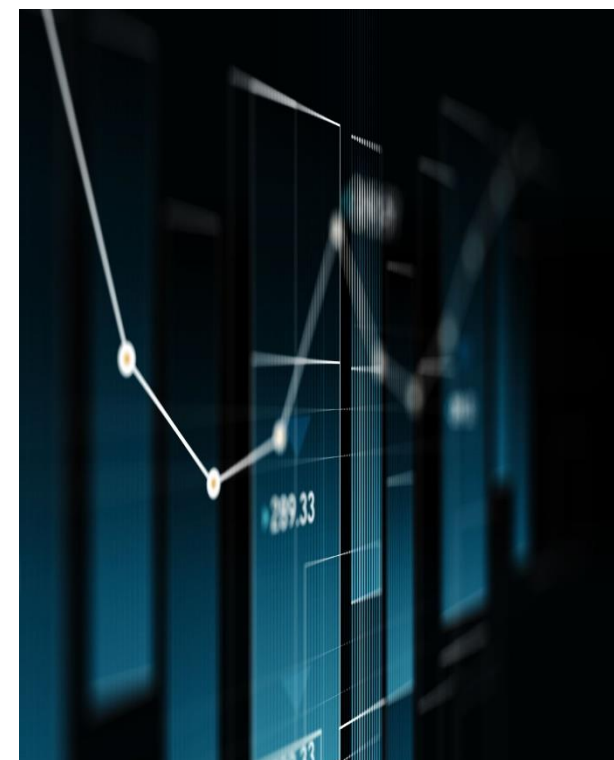
## Improving economy, efficiency and effectiveness

**12 Recommendation** The Council should update its procurement strategy.

**Why/impact** The existing should be reviewed and updated to ensure that there are no significant gaps in the current procurement arrangements.

**Summary findings** The Council does not have an up to date procurement strategy, its strategy was dated 2009-2014.

**Management comment** The Procurement Team is working on a updated procurement strategy with the aim of this being completed by the end of 2023.



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

# COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

The Council began preparations for COVID-19 in February 2020 and began operating under its emergency powers in March 2020. Virtual meetings were introduced in accordance with the national emergency Covid-19 powers in May 2020. These emergency powers included a change in delegation of powers to the Chief Executive by the Leader of the Council, enabling the Chief Executive to sign off decisions with a financial value of up to £2m rather than £1m. The increased authorisation limit was only utilised twice in order to procurement of PPE (personal protective equipment).

A governance structure was introduced in order to manage the pandemic which included:

- appointment of a Director of COVID-19 Response, to manage the operational response
- establishment of a Borough Emergency Control Centre, to increase the Council's ability to act with speed
- adopting a 'people first' approach to ensure the necessary action was taken to meet the needs of its residents and businesses to keep them safe during the crisis.

A COVID-19 business continuity framework was adopted to assess risk and was operated through five workstreams:

1. Strategic group, the decision making group which consisted of Gold command senior officers, Senior Leadership Team (SLT) and a COVID-19 Board. The Covid Board included Director or Associate Director representatives from the directorates including Adults, Children's, Public Health and Environment. The COVID-19 Board maintained the COVID-19 risk register and escalated issues to the Gold or SLT as required.
2. Tactical / operational group which consisted of the silver officers group and the Council's horizon scanning group
3. Residents and community reassurance support, this included communications and support to vulnerable residents in the community
4. Workforce resilience, this included the majority of staff moving and maintaining home working throughout 2020/21
5. Partners / economy and reputation, ongoing liaison was maintained with key partners on the response strategy.

The Council also recognises the importance of infection and prevention control and in January 2020 appointed a specialist infection, prevention and control advisor to provide leadership, support and expertise to during outbreaks.

COVID-19 posed a significant financial challenge to the Council's financial sustainability. A comprehensive financial coding system was implemented to ensure that the costs were effectively monitored and understood. The position has been carefully monitored by management and monthly returns in respect of cost and income pressures have been compiled and submitted to the Ministry of Housing, Communities and Local Government.

In 2020/21 the Council received £48.8m in COVID-19 grant funding, to fund both the extra costs within the Council and to fund and support businesses and local residents. As a result the Council was able to pay over £46m to local businesses. The Council has set up both earmarked reserves for COVID-19; COVID-19 collection fund earmarked reserve to smooth the impact of statutory timing differences between funding and the impact of business rates deficit and COVID-19 response non-ringfenced reserve (£6.2m) to meet future commitments.

Responsibility for managing the process of distributing business grant funding was delegated to the Revenues team, with review and sign off on government returns from finance colleagues following detailed reconciliation processes to payment systems.

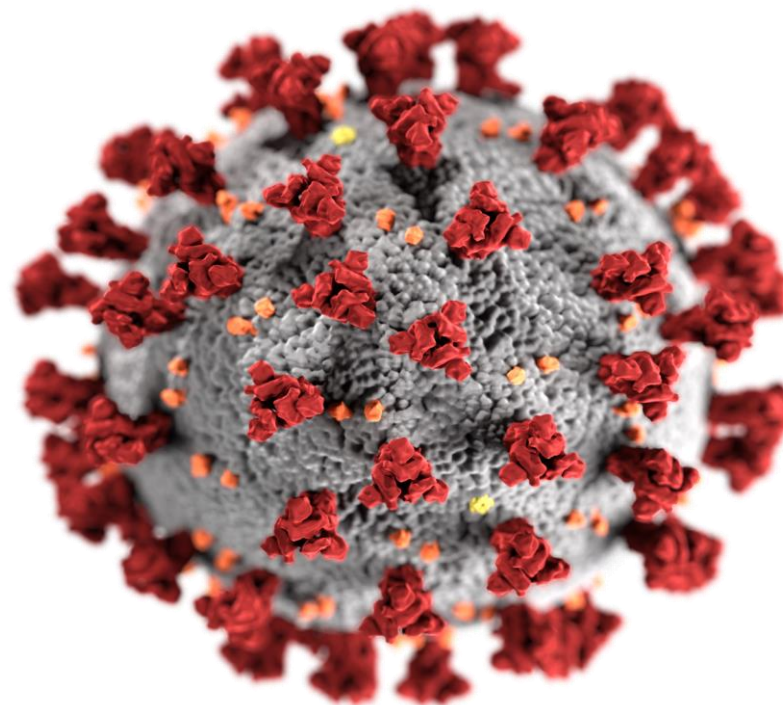
The Council took the early decision to apply caution to the process having identified the high potential for fraud or manipulation, and acknowledgement that there would later be retrospective monitoring of how the Council had applied the schemes. Management worked with their software provider, Capita, to devise a solution to administer each grant scheme accurately and consistently. This required periodic revisions to the arrangements in place as new schemes with different terms and conditions were announced throughout the period.

Manual due diligence checks were undertaken by the Revenues management team, including requests for additional information and documentation where businesses had not previously registered for NNDR in the knowledge that they would have previously been entitled to 100% relief. This included the collation of additional data which was not proactively requested in advance, but which the Council foresaw could be requested by central government at a later date.

This had the result that whilst the Council was not able to quickly grant monies to affected businesses, the returns compiled to central government could be reconciled to financial records and despite the complexity of the different schemes, no queries were subsequently raised for the Council to respond to by central government. In addition, the Council's counter-fraud team were involved on an exception basis where required and minimal instances of fraud were identified.

In relation to reporting to members and other stakeholders, the Head of Revenues and Assistant Director for Residents' Services held monthly meetings with their lead member. Progress against delivery of the schemes was updated on a regular basis to the Council's website, and communicated internally to officers through weekly business emails. Counter-fraud reported to the Audit Committee periodically throughout the year in relation to where instances of grant fraud had been prevented or detected.

In our view effective governance arrangements were introduced to respond to the COVID-19 pandemic, the Council made use of its existing controls to ensure that spend was appropriate to be incurred. A significant number of vulnerable residents and local businesses were supported and the Council continues to support its local population.



# Appendices



# Appendix A - Responsibilities of the Council



## Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

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

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

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

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

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



# Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment 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 that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
We did not identify any risks of significant weakness	N/A	N/A	N/A

# Appendix C - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	
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	Financial sustainability - pages 12 -14 Governance - pages 19 - 22 Economy, efficiency and effectiveness - pages 26 - 30

# Appendix D - Use of formal auditor's powers

We bring the following matters to your attention:

## 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 statutory recommendations

## 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 apply 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 an advisory notice

## 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 apply for judicial review

