# Interim Auditor's Annual Report on Hammersmith & Fulham Council

2021/22 and 2022/23

November 2023

Final

# Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the local authority 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 local authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

# Executive Summary

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

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

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

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

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

### Financial Sustainability

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

### Governance

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

### Improving economy, efficiency and effectiveness

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

**Our commentary on the local authority's arrangements in each of these three areas, is set out on pages 15 to 38. Further detail on how we approached our work is included in Appendix B.**

# Executive summary – Overview

## Value for money arrangements and key recommendation

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the local authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report their commentary on the local authority's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the local authority's arrangements for 2021/22 and 2022/23 to ensure our reporting and assurance to the Council is fully up to date. As part of our work, we considered whether there were any risks of significant weakness in the local authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below. This report is interim subject to any issues arising from the 2022/23 financial statements audit.

| Criteria | 2021/22 | Direction of travel | 2022/23 | Auditor Judgement |
|---|---|---|---|---|
| Financial sustainability *(excluding the Housing Revenue Account)* | Amber | ↔ | Amber | Generally appropriate arrangements in place with regard to financial sustainability but two improvement recommendations made with regard to savings identification, development and reporting and the capital programme. The Council enjoyed strong performance in 2021/22 and 2022/23. The medium-term financial forecast indicates a challenging position in common with much of local government with regard to savings identification and potential use of reserves. ***This is excluding the position on the financial sustainability of the Housing Revenue Account (HRA).*** |
| Governance | Amber | ↔ | Amber | No significant weaknesses in arrangements identified, but three improvement recommendations made relating to risk management, Audit Committee arrangements and the monitoring of Council-owned companies. |
| Improving economy, efficiency and effectiveness *(excluding the service performance in Housing)* | Green | ↔ | Green | Generally sufficient arrangements in place with regard to improving economy, efficiency and effectiveness but two improvement recommendations made.<br>The Council has performed well in key service areas and can point to a number of successes during 2021/22 and 2022/23.<br>***This is excluding the service performance in Housing.*** |
| *Financial sustainability and Improving economy, efficiency and effectiveness* Cross-cutting weakness | Red | ↔ | Red | Significant weakness in Housing (HRA and service performance)<br><br>Impacting VfM themes:<br>✓ Financial sustainability<br>✓ Improving economy, efficiency and effectiveness<br>Significant weakness identified in Housing relating to (1) the financial sustainability of the Housing Revenue Account (HRA) and (2) the service performance in Housing. We have issued two key recommendations. See details on pages 7 to 13 |

# Executive summary

## Financial sustainability

The Council was able to deliver a stable financial outturn against the general fund revenue budget in 2021/22 and 2022/23 finishing both years with underspends. Similar to many councils, the medium-term position remains uncertain, with the forecast budget gap proving challenging. However, the Council has a history of strong budget management and a relatively healthy reserves balance. The Council's current savings plan is achievable though requires greater development to meet the medium-term gap.

The Council's debt position is not considered to be a significant risk at the time of writing. The Council is in a promising position in regard to the management of their Dedicated Schools Grant (DSG) deficit. The Council has been compliant with the terms of the Safety Valve agreement and have been systematically reducing the retained deficit on the High Needs Block portion of the DSG deficit.

The Housing Revenue Account (HRA) continues to be a source of significant concern, as we originally noted in our previous Annual Audit Report for 2020/21. For a number of years, the Council has been running a deficit on the HRA, which has eroded HRA reserves, and which is set to continue into 2023/24. Significant efforts have been and are currently being made to move to a sustainable position in this area. We have raised a significant weakness due to the HRA's position and future viability.

*Further detail on this issue on pages 7 to 9*

## Governance

The Council has appropriate risk management arrangements in place for 2021/22 and 2022/23. The Council has an effective internal audit service and Audit Committee arrangements. We have made improvement recommendations relating to risk management and the Audit Committee. The Council has a reasonably good understanding of the companies in which it has an interest although it will be important to continue to strengthen monitoring in this area as we recommended our Annual Audit Report (AAR) for 2020/21.

We note that although significant progress has been made in implementing improvement recommendations from our AAR for 2020/21 (presented to the Council in September 2022), a number of areas remain a work in progress. In addition to strengthening the financial position of the HRA and the monitoring of Commercial companies and joint ventures. Recommendations not yet fully completed include improvements to the reporting of capital outturn, monitoring performance against Council's new corporate objectives, the development of a data quality strategy, and establishing a register of key partnerships. We have re-iterated these recommendations at the end of the key findings section of this report and continue to consider it important that the Council implements audit recommendations on a timely basis.

We have not found a significant weakness in the Council's governance arrangements with regard to their ability to secure value for money.

## Improving economy, efficiency and effectiveness

The Council enjoyed positive service performance during 2021/22 and 2022/23 and can point to a number of successes (for example, in adult social care, temporary accommodation and the Youth Offending Service).

Overall, we consider that, with the exception of the Housing service, the Council has adequate arrangements to safeguard value for money in regard to performance management, procurement and partnership working. A number of the outstanding prior-year recommendations mentioned under governance above relate to this theme, including in regard to corporate performance management.

The issues within the Housing service give rise to a significant weakness in this area. We note that action has been taken during our reporting period and into 2023/24 to remedy several of the weaknesses in this area.

*Further detail on this issue on pages 10 to 13*

## Hammersmith and Fulham Pension Fund

We have also considered the Value for Money of the Council administered pension fund and found this to continue to deliver effective performance across the themes of Financial Sustainability, Governance and Economy, Efficiency and Effectiveness.

# Executive summary

## The Housing Revenue Account (HRA)

### Significant Weakness (Financial Sustainability)

The Housing Revenue Account (HRA) contains solely the costs arising from the management and maintenance of the Council's housing stock, funded by income from tenant rents and service charges, leaseholder service charges, commercial property rents and other housing-related activities. It is a ring-fenced account and the Council is required under statute to account separately for local authority housing provision. The HRA is a statutory account that contains all expenditure and income on the provision of Council housing for rent. It is kept entirely separate from the General Fund.
At 2021/22 budget setting, the Council approved the four-year Housing (HRA) Programme of £247.6m for the period 2021/22 to 2024/25. The HRA programme for 2021/22 totalled £74.2m. Housing capital expenditure for 2021/22 totalled £55.58m . The outturn compared to budget represents an £18.82m variance which equates to 25% of the original budget. During 2021/22, the Housing Revenue Account made drawdown balances of £1.997m. This was £2.376m less than budgeted.

At 2022/23 budget setting, the Council planned a gross capital programme for the HRA of £77.7m . Housing capital expenditure for 2022/23 totalled £65.8m . The outturn compared to budget position represents a £11.9m underspend which equates to 15% of the original budget.

As per 2022/23 outturn report, the Council drew down £5.54m from the Housing Revenue Account general balance which was lower than the projected £6.33m.
The Council planned to make £3.85m savings on the Housing Revenue Account and this was fully achieved in 2022/23.
The closing balance for 2022/23 on the HRA was £10m with associated Earmarked Reserves of £11m. This reflects a budgeted use of reserves during 2022/23. Gross anticipated spend on the HRA programme for 2023/24 is £117.1m.

The key issue appears to be that the HRA has not generated sufficient operating surpluses over a number of years, impacting reserves. The latest Savills annual HRA report (which only goes up to 31/03/21 due to the lateness of so many local authority accounts for 2021/22) showed Hammersmith & Fulham to be only generating an operating surplus of 1.53%.

This compares to London and national averages of 16% and 22.1% respectively. The surplus available to service debt is therefore negligible, giving an interest cover ratio of just 0.14 – this compares with London and national averages of 1.66 and 1.75 respectively.

From 2019/20 to 2022/23 the Council's Housing Revenue Account (HRA) has incurred deficits. Operating surpluses (or deficits) have not been sufficient to cover the loan interest on existing HRA loans. Net deficits have had to be covered by the HRA general reserve. As a result of several years of deficits and other calls on the reserve, the level of reserves has dwindled considerably.

The HRA General Reserve has diminished significantly over the last few years, falling almost by two thirds in over three years (see table below). This coupled with the financial performance of the HRA: a £4.4m deficit in 2022/23 and a projected £1.4m in deficit in 2023/24 adds to the significant concern surrounding the financial arrangements of the HRA. The continuing deficits and failure to generating operating surpluses to finance the diminishing reserves (alongside the poor operational performance discussed in the 3Es section) has led us to find a significant weakness in the Council's arrangements to secure value for money, only relating the sustainability of the HRA.

| | HRA (general) reserve |
|---|---|
| 31/03/2021 | £17.6m |
| 31/03/2022 | £15.6m |
| 31/03/2023 | £10.0m (draft) |
| 31/03/2024 | £6.7m (budgeted) |

*Source: HRA budget paper for 2023/24*

The HRA budget for 2023/24 contemplates a net deficit of £1.4m after allowing for some £1.1m in savings not specifically identified at the time the budget was set. In addition to covering this deficit, the budget also contemplates that £2.2m from the HRA general reserve will be used to fund works designed to alleviate damp and mould issues in LBHF council tenant's homes.

# Executive summary

The budget paper projects that at 31 March 2024, the HRA general reserve balance will have fallen to £6.7m and that this represents a mere one and a half month's HRA expenditure. To compound matters, the net deficit for 2022/23 forecast at the time that the budget for 2023/24 was set was £0.3m less than the actual deficit recorded in the draft financial statements for 2022/23.

The effect is that, based on current projections, at 31 March 2024 the balance on the HRA general reserve will have reduced by almost two-thirds over the previous three years.

At this rate of attrition, the HRA general reserve could be perilously close to being overdrawn by 31 March 2025. Under legislative provisions, the HRA is a ring-fenced account and cannot be subsidised by the Council's general fund.

In April 2022, the Council raised rents by 1.5% when the maximum allowable amount was 4.1%. During the year, the Council made the unprecedented step of making a supplementary rent increase in November of 4.1% which brings the average increase of rent for 2022/23 a total 3.1%. Given that the cap allowable was 4.1%, the Council have lost out on 1% of rent receivable due to the decision not to raise rents by 4.1% at the beginning of the year. This equates to approximately £0.6m. In 2023/24, the Council have raised rents by the maximum allowable amount of 7.0%. However, it is important to note that due to the decision not to raise rents by the maximum allowable amount in 2022/23, this has a compounding impact on the base from which the Council can raise rents for future years and therefore means that the loss is carried forward into future years. This is particularly important to note considering the concerns surrounding the financial sustainability of the HRA.

The 2023/24 budget paper talks about the Council having an appetite to borrow more to fund several statutory and other promised commitments including:

- Build 3,000 homes (950 on site currently)
- Retrofit homes to reduce carbon footprint
- Address safety issues (including damp and mould)
- Invest in existing stock components to improve 'decency'

Although LBHF's HRA has the capacity to raise further debt, it does not currently have the ability to service additional interest payments arising from new borrowing. Due to negligible operating surpluses, LBHF's HRA cannot cover existing interest charges as it has to cover deficits from the HRA general reserve.

We understand that the Council has a 40-year financial business plan for the HRA, utilising market leading financial modelling software. A robust financial model is essential in managing the Council's housing portfolio and especially so during these challenging times where the financial sustainability of the HRA is in question. However, any financial model is only as good as the assumptions and data that it is based on, especially stock condition data.

# Key recommendations (KR1)

## Financial sustainability

| | |
|---|---|
| Key Recommendation 1 | **Housing Revenue Account**<br>a. We recommend that the Council takes urgent steps to return the HRA to making operating surpluses sufficient to cover existing borrowing requirements and to start building up HRA general reserve balances.<br>b. We recommend that the Council sets a target level of minimum HRA general reserve balances, expressed as a number of month's HRA expenditure and aims to meet this target in a specified number of years.<br>c. Within the constraints of the maximum rent increases allowed by the Regulator of Social Housing for social rents, HRA income should cover cost increases as far as possible and this should be reflected in non-regulatory fee increases<br>d. We recommend that this financial model is used to demonstrate plans for returning the HRA to a position of financial sustainability and to demonstrate how both legally required works and new build aspirations might be funded and paid for. We would expect the financial business plan to allow reporting of various scenarios and for projections to be supported by extensive sensitivity analysis and stress testing.<br>e. We recommend that a comprehensive exercise is undertaken to improve the quality of stock condition survey data. If all team members visiting homes are involved in validating existing records and updating stock condition data, this will give rise to a sense of ownership and increase confidence in the stock condition survey data amongst team members. This needs to be supported by appropriate technology. |
| Why/impact | The key issues surrounding the HRA can be summarised in the following:<br>• **Operating surpluses** - From 2019/20 to 2022/23 the Council's Housing Revenue Account (HRA) has incurred deficits. Operating surpluses (or deficits) have not been sufficient to cover the loan interest on existing HRA loans. Net deficits have had to be covered by the HRA general reserve. As a result of several years of deficits and other calls on the reserve, the level of reserves has dwindled considerably.<br>• **Diminishing reserves** – The budget paper projects that at 31 March 2024, the HRA general reserve balance will have fallen to £6.7m and that this represents a mere one and a half month's HRA expenditure. To compound matters, the net deficit for 2022/23 forecast at the time that the budget for 2023/24 was set was £0.3m less than the actual deficit recorded in the draft financial statements for 2022/23. The effect is that, based on current projections, at 31 March 2024 the balance on the HRA general reserve will have reduced by almost two-thirds over the previous three years. |
| Management Comments | a. A number of steps were implemented during 2022/23 to deal with the base deficit of £4.1m (this included a rent increase of 3.1% and actioned in 2 stages in April 2022 and November 2022) and rent increase of 7% from April 2023 (in line with the cap). In addition, the full recovery of costs for service charges was implemented from November 2022. This together with other actions allowed the base deficit to be reduced from £4.1m to £1.4m in 2023/24. It is expected that full cost recovery of service charges and the maximum rent cap increases will be applied in the foreseeable future.<br>b. The current financial strategy is that a minimum HRA balance of £5m will be maintained (this is in addition to other provisions for arrears of almost 80% and earmarked reserves e.g water commission refunds). The level of balances are estimated at about 6% of all rent/service charge income (or considerably more with regard to controllable repairs/operational spend excluding financing charges). The Council would welcome your observations on the minimum balance based on your national work.<br>c. See response to 1a (this was implemented from November 2022). The Council has also implemented the 5% flexibility since April 2019 on relets.<br>d. The work is substantially complete and will be reported to Cabinet in February 2024 as part of the report on the HRA Budget for 2024/25 (this will include sensitivity analysis). The Council's view is that the financial plans should be developed for a five year rolling basis (beyond that, they become spurious given the considerable uncertainties on macro economic and national rent policy matters).<br>e. This is in progress (more than 25% has been completed) and is expected to be competed in the next 2 years. This will be used to inform capital investment decisions and other long term stock option/sustainability decisions (including disposal, demolition, modernisation). |

# Executive Summary

## Service performance in Housing

### Significant Weakness (Economy, Efficiency and Effectiveness)

Hammersmith and Fulham own approximately 11,000 dwellings which are rented out to residents.

We note that the Housing service has been underperforming at Hammersmith & Fulham for some time now. During 2021/22 and 2022/23, the service continued to struggle under the conditions enforced by COVID and the subsequent repairs and maintenance backlog that it created. At present, the service is reporting underperformance in repairs, low resident satisfaction, a backlog of repairs, complaints and capacity issues. The performance data shows that the main patch contractors are struggling to meet contractually agreed targets and new work is continuing to add additional strain on existing repair capacity. The Council is simultaneously concerned about cases being reported through the Housing Ombudsman have been increasing, including those citing maladministration. The Housing Ombudsman is an independent agent of the UK government responsible for investigating complaints from residents under relevant approved housing schemes, such as those entered into by the Council.

In 2021/22, Hammersmith & Fulham was noted by the Housing Ombudsman to have the highest number of maladministration findings for damp and mould per 10,000 homes.

In February 2023, the Housing Ombudsman found severe maladministration for Hammersmith & Fulham's response to repairs on windows where there were safety concerns, and a roof leak which led to the resident reporting fire safety issues. The finding represents a failure to deliver a minimum core standard of service. The Council took 18 months to repair unsafe and rotting windows and during this time there was a lack of reasonable management or communication with the tenants.

In May 2023, a similar case occurred where the Council was ordered to pay residents £18,000 in compensation after significant failings led to one resident living in damp and mould for four years. The Ombudsman made seven findings of severe maladministration against the Council for various repair failings. Complaints handling was noted as delayed and protracted and 'severely inadequate.' In the same month, the Housing Ombudsman launched 'wide-ranging' investigation into H&F Council following string of failures.

We are aware that the Ombudsman is currently investigating whether its handling of complaints and repairs is indicative of a wider problem. The regulator noted a high number of high or medium risk cases concerning the landlord and 12 findings of maladministration since April 2022.

In terms of Ombudsman's findings and in comparison to other London Boroughs, it is apparent that the arrangements to deliver value for money in the housing service have not been adequate in the period under review.

Hammersmith & Fulham has the third highest number of complaint handling failure determinations made, in comparison to other London Boroughs:

| | | |
|---|---|---|
| Southwark | 60 determinations | 53,579 properties |
| Westminster | 34 determinations | 11,824 properties |
| **Hammersmith & Fulham** | **33 determinations** | **16,983 properties** |

Hammersmith & Fulham also has had the second highest number of maladministration and partial maladministration decisions:

| | | |
|---|---|---|
| Southwark | 25 maladministration findings | 42% of determinations made |
| **Hammersmith & Fulham** | **24 maladministration findings** | **72% of determinations made** |

The Council's performance has impacted residents health and wellbeing and has caused reputational damage to the authority. The performance could indicate systemic failure. The Council has said it is reforming its housing repairs service, including successfully exiting an underfunded 10-year maintenance contract in 2019.

The Council recognises the historic failings in its management of complaints and repairs in its ageing housing stock. Directorate leadership are emphasizing the importance of reducing the number of complaints escalating to the Ombudsman including maintaining an open line of communication with tenants and learning from complaints, to improve services and improve responses to complaints. The Council is in the process of applying its learnings in complaints handling through collaborative working across departments, a full review of all currently open cases with the Ombudsman, early identification of risks and efforts to reduce the numbers of overdue complaints.

# Executive Summary

In July 2023, the Council launched a housing repairs improvement plan in a bid to tackle the shortfalls identified in the repair services and complaints management. The plan includes the establishment of a Housing Hub to streamline repairs, complaint-handling and broader housing issues under one umbrella. The plan also introduces a feature known as 'Home MOT' to provide additional home services to ensure homes remain fully function and fit for purpose.

The Council noted that several external factors contributed to the repairs backlog, including the COVID-19 pandemic and associated lockdowns and the unexpected departure of key contractors, which has fuelled an excessive number of repair requests. The Council has committed to investing £600m over the next ten years to repair and enhance homes. The leadership team will also be strengthened with new senior housing specialists and additional contractors and surveyors. The Council has also established a corporate housing taskforce and dedicated resolution team to deal with all cases that reach the Housing Ombudsman. The plan focuses on creating a 'resident-centric' approach to ensure vulnerabilities are identified and responses tailored appropriately.

Since 2021, a Housing Transformation Programme has been in place at the authority. The purpose of the Transformation Programme is to deliver an integrated housing management system which allows H&F to deliver housing services more efficiently, introduce more automation, and join up data to provide a better understanding of demand and residents needs. A key objective is to become a digital landlord, delivering significant channel shift and establish a single contact centre (a Housing Hub) for the majority of housing landlord related service requests. The programme will also enable officers to operate in agile, mobile roles supported by the latest technology interacting with residents on our estates, with a consolidated back-office and specialist functions.

We note that the improvement programme has been running for two years now and its objectives are being updated to reflect current business priorities for the Housing Service. These will be incorporated into the new combined Service Improvement Plan. Each delivery in the programme is being reviewed to establish if it supports improvements to the Repairs Service and reduce complaints.

The programme has delivered some key successes including:

- The transfer of the Housing Management System to the Cloud, streamlining interfaces and removing a dependency on a bespoke code;
- The move toward becoming a Digital Landlord with resident portals designed to give residents better access to services
- The transfer of the Asset Management database from an external system into the integrated Housing Management System
- Future proofing the Rents and Service Charges processes and technical configuration n the Cloud
- The move toward an integrated system has progressed with the inclusion of new processes for Disrepair Case Management.

The performance of the Housing Service points us toward the conclusion that there was a significant weakness in the Council's arrangements in this area due to the failure to maintain a minimum service standard. However, we recognise that it is important to note that Hammersmith & Fulham are directing effort toward improving and ameliorating the service and appear to have the appropriate architecture in place to do so. We note that this improvement will take time and it probably will not be for another two or three years that tangible changes begin to materialise.

Operationally, there appears to be the appropriate arrangements to facilitate improvement. Due to the fact that the Council recognises previous management failings and is now putting effort toward understanding its stock condition and implementing lessons learnt, the arrangements are attempting to be improved. We stress the importance of continuing to direct efforts towards the performance of the service.

There is evidence of improvement already being achieved. In the June 2023 update to the Audit Committee regarding Housing Safety Compliance, the directorate showed strong performance in the six main compliance areas, securing 90.24% and above compliance in all areas, with three areas reporting 100% compliance (see table overleaf).

# Executive Summary

| Safety Area | Status | | | |
|---|---|---|---|---|
| | March 23 | April 23 | May 23 | June 23 |
| Annual Gas safety record completed for boilers | 99.87% | 99.91% | 99.86% | 99.94% |
| 5 Year Electric installation condition report in place | 85.88% | 86.99% | 89.04% | 90.24% |
| Fire risk assessment of communal areas in place | 100% | 98% | 98% | 98% |
| Water risk assessment in place for communal tanks | 100% | 100% | 100% | 100% |
| Lift inspections completed six-monthly | 100% | 100% | 100% | 100% |
| Annual asbestos surveys of communal areas | 100% | 100% | 100% | 100% |

*Source: Pennington's Choices Report June 2023*

An external audit conducted by Pennington's Choices of the six primary areas reported a 'reasonable assurance' audit opinion across the cross-cutting themes of data, governance, reporting and outturn performance. The external auditor found leadership of compliance to be strong with teams generally well-resourced, governance was well-defined, data is well controlled but there is a need for an asset management system that is fit for purpose and IT tools to improve the service. Reporting was found to be effective and there is a proactive response to the Building Safety legislative requirements. Overall, the auditor raised 19 recommendations which the Council has agreed to action in the next 3 to 6 months. All the recommendations have been assigned to responsible owners and given a priority rating. Management has responded to all recommendations and there is a roadmap in place demonstrating expected timelines for actions.

The Council recognises the severity of the status of the performance in Housing and is constantly revising the architecture in place to facilitate improvement. Due to the poor performance in 2021/22 and 2022/23, we have found a significant weakness in arrangements. However, through extensive discussion with the authority we recognise the Council's acknowledgement of the service performance and are aware of the efforts to improve. We emphasise the importance to continue directing effort toward improvement.

# Key recommendation (KR 2)

Improving economy, efficiency and effectiveness

| | |
|---|---|
| Key Recommendation 2 | The Council should continue on its improvement journey with the operational performance of its housing service to ensure it is meeting a minimum core service standard. |
| Why/impact | The Council failed to meet a minimum core service standard in 2021/22 and 2022/23. There appears to be strong corporate grip on the failings through underperformance endures.<br>In 2021/22, Hammersmith & Fulham was noted by the Housing Ombudsman to be the worst performing landlord in the country with regard to its damp and mould in its properties. In terms of Ombudsman's findings and in comparison to other London Boroughs, it is apparent that the arrangements to deliver value for money in the housing service have not been adequate in the period under review.<br>Hammersmith & Fulham has the third highest number of complaint handling failure determinations made, in comparison to other London Boroughs. The Council also has had the second highest number of maladministration and partial maladministration decisions. |
| Management Comments | A number of governance arrangements have been established in 2023/24 (including Housing Task Force, HRA Budget Board), in addition to service improvement working groups. The performance on repairs, work in progress, section 82/11, voids and other repairs are reported monthly to Assurance SLT and periodically to Political Cabinet. Other work is in progress to implement the Social Housing Regulation Act 2023. |

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

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# Use of auditor's powers

We bring the following matters to your attention:

| | 2021/22 | 2022/23 |
|---|---|---|
| **Statutory recommendations**<br>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 | Not applied | Not applied |
| **Public Interest Report**<br>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. | Not applied | Not applied |
| **Application to the Court**<br>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. | Not applied | Not applied |
| **Advisory notice**<br>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:<br>• is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,<br>• 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<br>• is about to enter an item of account, the entry of which is unlawful. | Not applied | Not applied |
| **Judicial review**<br>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. | Not applied | Not applied |

# Detailed Findings

# Financial sustainability

### We considered how the authority:

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

## 2021/22 budget and performance

The 2021/22 budget was set against the backdrop of COVID-19 and the resulting financial pressures that had a fundamental impact on local economies and nationwide uncertainty surrounding the financial impact of Brexit negotiations, the prospect of a potential new funding formula (that was eventually delayed), changes to adult social care, and general uncertainty on the future funding arrangements with central government.

The Council set a total net expenditure budget for 2021/22 of £124.458m. The 2021/22 budget included £7.885m of new investment on key services. The Council voted to increase Council tax by 1.99% for 2021/22 and applied the 3% adult social care levy.

The Council set a savings target of £6.9m in the 2021/22 budget and aimed to make a £1.1m contribution to general balances. In addition to a one-off contingency of £1.1m set aside for COVID-19 financial pressures.

As per the 2021/22 outturn report, the Council reported a £6.7m underspend against the General Fund revenue budget. General balances and earmarked reserves (excluding COVID reserves) increased by £11.2m in 2021/22. It is important to note that during 2021/22 specific COVID grants of £6.945m and general COVID funding of £600k were applied to fund the cost of provision of accommodation to rough sleepers, housing benefits and supporting the response to COVID.

The Council delivered against its savings target as is reflected by its underspend on the general fund revenue budget. More detail on savings is in the savings section of this report.

## 2022/23 budget and performance

In 2022/23, the Council was still feeling the impacts of COVID-19 although the funding from government to meet the costs ceased. We note that there were additional pressures in adult social care, children's services, budget costs, inflation, interest rates, Brexit and due to supply chain issues and it is clear that councils were facing a difficult national backdrop against which to make decisions to ensure future financial sustainability.

The Local Government Finance Settlement was a one-year settlement for 2022/23 only. This increased the challenge for the Council to make credible assumptions against which to base budgets.

The Council set a balanced net budget for 2022/23 with planned expenditure of £125.657m. The Council decided to freeze the Hammersmith & Fulham element of the Council tax charge for 2022/23 and not to apply the 2% increase modelled by the government for the year. The Council also decided not to apply the adult social care precept of 1% and instead use Council savings and income to fund growth. These decisions were made in light of the increasing burden placed on residents due to the cost of living crisis. We acknowledge that the decision not to increase Council Tax in 2022/23 reduces the Council Tax base to which future increases are applied. However, we are satisfied that the Council is in a position to be able to do this at this point in time. The 2022/23 budget also included £7.434m of new investment on key services for residents.

# Financial sustainability

The 2022/23 budget included a savings target of £4.9m to balance the budget. The plan included a proposal of £2.9m in one-off resources to be transferred to reserves. An additional one-off contingency of £1.5m was also set aside to meet potential COVID pressures with £0.5m to an unallocated contingency. These decisions were made in the interest of securing the authority's financial resilience.

In terms of performance, the 2022/23 outturn report shows the Council to be reporting a £0.34m underspend (0.02% of the budget) against the General Fund revenue budget. The outturn report shows that the Council delivered 95% of its planned savings but made up the shortfall elsewhere (for example, reporting underspends on directorate revenue budgets). See Table 2 for 2022/23 savings reporting.

Overall, total general balances and earmarked reserves decreased during 2022/23 but un-ringfenced and unearmarked general fund reserves increased by £1.4m in 2022/23. This includes planned contributions and the addition of the underspend. The DSG reserve decreased by £7.071m relating to the Safety Valve agreement.

## 2023/24 budget

The Local Government Finance Settlement 2023/24 was challenging but more generous than most authorities were expecting. The Spending Review total for local government increased by £1.6 billion in 2022/23 and in 2023/24 the Review stated that this would be the same 'cash' level as 2022/23. Though the impact of COVID on Council finances has reduced significantly, the current predicted high inflation rates and cost of living crisis has increased pressure on Council budgets. Inflation, in particular, is presenting as a considerable cost pressure in 2023/24 budgets impacting Council costs.

For Hammersmith and Fulham, the Settlement resulted in the Revenue Support Grant increasing by £2.2m with the cash increase of the general grant at £7.9m of which £5.1m was compensation for the government decision not to increase business rates.

The Council set a total net expenditure budget for 2023/24 of £132.63m.

The Council is proposing efficiencies and savings of £2.9m in 2023/24 to balance the budget. The key elements of the savings surround improving the commissioning of services for children (£0.7m), greater use of digital technology in adult social care services to reduce operational costs (£0.5m) and working with the NHS to improve hospital discharges and independent living (£0.5).

## The medium term

The Council has acknowledged in the medium-term financial plan that the outlook beyond 2023/24 remains uncertain. In an atmosphere of political and international uncertainty, economic challenges such as inflation, increased interest rates, lack of clarity on future finance settlements and the long-term impact of greater service demand, authorities are tasked with the difficult task of demonstrating a resilient and sustainable position from which to weather shocks.

The latest publicly available iteration of the MTFS shows the Council to be forecasting a £43.5m cumulative budget gap in the medium term. This is demonstrated in Table 1 which shows the Council's gap if no savings were delivered.

The Council has been putting aside contingencies over a number of years in order to provide some cushioning against cost pressures and therefore reduce the need to dip into reserves. These contingencies will be the first port of call should the Council fail to generate enough savings to bridge the budget gap. For example, in April 2022, the Council funded the £3.8m cost of the 2022/23 pay award from its one-off policy contingencies.

The creation and contribution to contingency balances demonstrates prudent and cautionary financial management from the Council.

Outside of contingencies, the budget gap will need to be met from generating savings or from use of reserves. It is important to note that the Council does not intend to apply reserves to balance the budget. The intention is always to identify savings and the focus is on ensuring that the first year is balanced without needing to use reserves – this is evidenced by the fact that the Council has set balanced budgets for the first year in question in the 2021/22, 2022/23 and 2023/24 medium-term forecasts. The budgets also complied with the outturns and generated underspends in 2021/22 and 2022/23. The purpose of Table 1 is to show the Council's predicted gap, at this present point in time. The gap would have to be met from reserves **if no other savings were generated.**

As is demonstrated in Table 1, the Council is predicting to make up the 2023/24 budget gap entirely from savings and therefore forgo the need to dip into reserves. This will be a significant challenge The situation becomes more precarious from 2024/25 onwards.

# Financial sustainability

| | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|
| Spend | (195.5) | (212.34) | (226.32) | (238.8) |
| Resources | 192.63 | 189.64 | 192.10 | 194.69 |
| **Budget gap** | (2.93) | (22.71) | (34.21) | (43.49) |
| Savings | 2.92 | 4.02 | 4.82 | 5.52 |
| Use of reserves | 0.00 | 18.68 | 29.39 | 38.16 |

*Table 1: The medium-term budget gap*
*Source: Medium-term financial forecast 2023-24*

Without a clear medium term indication of funding, the Council is required to make prudent assumptions which undoubtedly result in portraying an unsustainable budget gap. As the Council cannot submit an unlawful budget, if the gap is not met by savings then the Council will need to use its reserves balance to smooth the budget. In 2024/25, the Council is showing a predicted gap of £18.68m if the planned savings are fully delivered (and no other savings plans are devised between now and then). The risk arises as the Council currently considers that its general fund un-ringfenced and unearmarked reserves balance stands at £22.8m as at 31 March 2023. If the Council was required to meet the balance from its general balances, the current medium term budget gaps show that, even with 100% delivery of its current planned savings, the Council would deplete the general balances by 2025/26. Though this is unlikely to materialize, it is important to acknowledge this position.

In terms of the 2024/25 budget gap, the Council has made good progress in the work to balance the budget for 2024/25. Since the medium term plan, the Council has managed to identify additional savings of £8.28m bringing the total 2024/25 savings package to £12.3m. Additional income from interest balances and forecast of grant revenue has resulted in increased resources and some additional pressures has brought the new 2024/25 budget gap down to £4.1m. This is still without assuming a Council tax increase. All these efforts demonstrate the Council's efforts and focus to ensure the successive year is balanced.

Based on recent history the need to use reserves to plug a revenue budget gap is further unlikely to materialize at a Council like Hammersmith & Fulham due to the Council's strong history of financial management. The Council has strong credentials in reserves management.

The Council's general fund reserves balance has remained at £19m since 2016/17 - meaning the Council has not been using the general balances to plug revenue budget gaps.

Since 2019/20 a Reserves Strategy and Action Plan has been in place and the measures have already improved the reserves forecast by £27.6m. As part of the 2020/21 budget report, the Strategic Director of Finance considered that general balance reserves needed to be maintained within the range of £14m to £20m. The Council has maintained this range since and exceeded this balance in 2022/23. The reserves balance as at 31 March 2023 stands at £22.8m.

The Council has reported underspends on the revenue budget for 2021/22 and 2022/23. Both years ended with contributions to reserves. The Council also has a significant level of earmarked reserves that could be reviewed in a worst-case-scenario to free up some reserves to smooth the revenue budget.

Table 1 is useful for demonstrating the scale of the budget gap presently forecast by the Council and therefore indicating the level of identification and development of the savings plans. Hammersmith & Fulham are prudent in the size of the savings package it inputs in its medium-term financial plan in order to show the savings that are at a later stage of identification and development. The table shows that **if no other savings were identified,** then the Council would need to use £29m of reserves in 25/26 to bridge the gap and so on. The Council are not intending to use reserves to this extent but are planning to identify further savings between now and then. The issue is that the Council will need to deliver a savings plan which is far beyond the scale it has been able to deliver in recent years – having only delivered a £6.9m package in 21/22 and £4.9m package in 22/23. There is therefore risk surrounding whether the Council will be able to scale up the ability to deliver savings of £29m (for example) when this would be almost quadruple what the Council has delivered since 2021/22.

We have added this point to the improvement recommendation on savings but would also like to reiterate that the Council has several mitigating factors in place which provide assurance of their ability to deliver. The Council has strong historical financial management, the unearmarked reserves balance has remained steady since 2016/17, the Council has reported underspends in recent years, there is a significant earmarked reserves balance, the Council has been able to deliver savings in the last few years, low debt, healthy cash balances, limited exposure in terms of Council-owned companies and strong management of major regeneration projects. The Council focus on balancing Year 1 of the MTFP and have an iterative approach to identifying savings beyond that.

Overall, the Council's medium term forecast, while containing a degree of financial risk, is not unlike many of its counterparts in the sector. The Council cannot afford to become complacent with regard to its financial management.

# Financial sustainability

In order to ensure a sustainable position in the medium term, the focus must be on generating income and delivering on savings and maintaining and growing the reserves position to bridge the medium-term gap. The Council has not needed to deliver significant savings over the last two to three years. There is therefore the risk that the organisation may take time to gear up to the increased savings challenge that this medium term forecast proposes.

## Savings

Savings identification and delivery has become a key component for local authorities to acceptably demonstrate a plan for maintaining financial resilience. At Hammersmith & Fulham, Cabinet members begin consultation on the proposed savings to be included in the successive year's budget in the summer before the budget publication in February. Officers work on initial proposals which are discussed at SLT. Officers and members discuss savings and offer challenge on proposals. Through this process, stakeholders are consulted during the development of savings plans.

The Council ensures that Directorates are 'bought into' savings plans by involving leads early on in the savings development plan process. It is the responsibility of the Director of Finance to encourage the best use of resources and value for money by working with SLT directors to identify opportunities to improve economy, efficiency and effectiveness. At Hammersmith & Fulham, savings plans are based on the proportion of that directorate's spend in relation to overall Council expenditure.

At SLT meetings, directors offer challenge to those savings targets and ensure that senior leaders are aware of the specific factors that could impact that directorate's ability to achieve that savings target. In this sense, there is ultimate ownership of the savings targets as the targets have been devised through collaborative discussion. The Council finance team also make an effort to use benchmarking tools to compare savings delivery at other Councils of similar sizes to ensure that the targets the Hammersmith & Fulham directorates are tasked with are not outside the realm of possibility. SLT directors are encouraged to avoid funding recurring expenditure from one-off savings/income or creating future commitments for which they have not identified future resources.

The budget approved by Full Council and recommended by Cabinet on the advice of the Director of Finance contains proposals regarding investment in services, inflation and savings proposals . There are therefore arrangements in place for approving savings schemes.

This table is set out below:

| Department | Original Target £'000 | Savings Achieved £'000 | Percentage of Target Achieved |
|---|---|---|---|
| Children's Services | 533 | 351 | **66%** |
| The Economy Department | 235 | 235 | **100%** |
| The Environment Department | 1,184 | 1,117 | **94%** |
| Corporate, Resources and Finance | 1,229 | 1,229 | **100%** |
| Social Care | 1,500 | 1,500 | **100%** |
| Public Health | 170 | 170 | **100%** |
| **Total** | **4,851** | **4,602** | **95%** |

*Table 2: 2022-23 Savings Achievement against Target*
*Source: Revenue Outturn 2022-23*

In terms of arrangements in place to monitor the delivery of savings schemes, while performance has been good to date the Council has taken the opportunity to strengthen arrangements reflecting that the scale of savings required from 2024/25 onwards is now much larger than in recent years.

During 2021/22, the Council did not have appropriate arrangements in place to monitor and report on the delivery of savings schemes. There was no evidence of savings delivery being monitored independently of basic budget monitoring at a corporate level.

Though the Council can demonstrate that it achieved its overall savings target by the fact that it delivered an underspend on the General Fund Revenue Budget at year-end, there is no way to tell whether the savings ultimately delivered were the savings that were initially approved at February budget setting. In our 2020/21 report, we recommended that the Council improve its savings monitoring and reporting.

# Financial sustainability

The Council has implemented this recommendation in 2022/23. In the 2022/23 outturn report presented to Cabinet, the Council has documented the overall savings progress, split by department, comparing the savings achieved in the year to the original target.

The Council has further strengthened this reporting in the Month 2 report to be presented to Cabinet in September 2023. The September 2023 report includes a target savings delivery, a RAG-rating to indicate the risk of the saving in terms of deliverability and a forecast of savings to be delivered versus non-delivered.

The progress in reporting of savings demonstrates sound arrangements by the Council toward improving tracking and monitoring of savings. This demonstrates incorporation of our improvement recommendation in 2020/21. The Council has now stated the commitment to reporting on savings in all the monitoring reports presented to Cabinet for 2023/24 onwards.

To further strengthen savings reporting, the Council must be able to demonstrate that the savings agreed in February continue to be progressed. If the savings plans have changed, these must be visible in the Cabinet reports, with alternatives and mitigations evident. The Council has already demonstrated a clear competence and ability to deliver savings. The task is to now improve the tracking, monitoring and transparency of savings schemes. Our improvement recommendation aims to direct the Council toward further improvement of savings reporting.

In terms of medium-term savings, the Council has stated to deliver the following savings in the medium-term as per the forecast presented in February 2023:

| Savings | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|
| Savings required to balance budget | 2.92 | 4.02 | 4.82 | 5.52 |

Given the Council's previous history of savings delivery and its management of reserves, these savings targets appear reasonable and achievable. Our savings recommendation aims to strengthen the organisation's capability to deliver future significant savings.

Though these savings targets appear deliverable, the targets are not ambitious enough given the budget gaps forecast from 2024/25 onwards. Table 1 previously showed that if 100% of the savings were delivered for 2024/25, this would still require £18m use of reserves to bridge the gap. The Council has been clear that they do not intend to apply reserves and intend to identify savings further down the line to make up the shortfall.

There is however significant risk in this approach as the Council may fail to identify enough savings to bridge the gap and therefore rely on a high call on reserves. Considering the £18m is far beyond the Council's historical savings delivery in the last two years (£6.9m in 21/22 and £4.9m in 22/23), a step change in approach will be necessary to deliver the scale of savings required from 2024/25 onwards. We have raised a strongly worded improvement recommendation urging the Council to put effort toward identifying savings as early as possible in the budget setting process and urging Members to agree and commit to the savings being identified and developed.

## Borrowing and investment property

The Council has a small commercial property portfolio - mainly shops that are part of multi-storey properties in the HRA – these are run as community services rather than as an investment portfolio and let on leases generating approximately £1.5m per year or less than 2% of all HRA income. There are also come small isolated public car parks. The only other commercial property element relates to the Civic Campus – this is being progressed with external expertise via the West King Street Renewal Company. We do not find there to be significant risk in the Council's investment property portfolio at the time of writing.

With regard to borrowing, in the 2021/22 budget, the Council made prudent assumptions about interest rates payable and ensures budget proposals were joined up with the requirements of the Prudential Code and Treasury Management Strategy.

In 2021/22, the revenue effects of the capital programme were reflected in the budget with an increase of £0.8m in the revenue net cost of borrowing. In 2022/23, the cost increased by £0.4m and in 2023/24, the cost further increased by £0.6m .

The 2021/22 outturn report shows the Council's debt, all held with Public Works Loan Board (PWLB), at the end of the year to be £271.7m. No new borrowing was undertaken in 2021/22. All prudential indicators were met in the year. The Council's cash balances remained steady through the year increasing from £297.3m as at 31 March 2021 to £328.9m as at 31 March 2022. All of the Council's loans are at a fixed rate of interest.

The Treasury Management Strategy presented to Full Council in February 2023 provides a guide to the borrowing needs of the Council, to ensure it can meet its capital spending obligations. The Council's borrowing strategy aims to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

# Financial sustainability

The Council is currently maintaining an under-borrowed position . This means its capital expenditure has not been fully funded from loan debt as other funding streams have been employed where available. This has served the Council well in recent years while investment returns have been low and counterparty risk has been relatively high.

The Council is forecasting to increase its gross projected debt in line with its capital financing requirement. The affordability of the level of investment in capital assets is within the Council's sustainable limits. The table below shows the expected ratio of capital financing costs to income for both General Fund and HRA activities in the medium term as at February 2023:

| | 2023/24 Estimate % | 2024/25 Estimate % | 2025/26 Estimate % | 2026/27 Estimate % |
|---|---|---|---|---|
| General Fund | (0.13) | (2.39) | (1.82) | (1.87) |
| HRA | 6.18 | 4.56 | 4.60 | 4.47 |

From 2023/24 onwards, gross capital financing charges (loan interest, MRP and finance and PFI payments) for the General Fund capital programme will start to increase as a proportion of the income from investments and the commercial property portfolio, as new debts are raised to close the gap between funding and the CFR.

The capital financing charges arising from the HRA capital programme increase in line with the forecast increased income, hence capital charges as a proportion of the HRA net revenue stream will remain fairly steady.

As per CIPFA's Financial Resilience Index for 2021/22, Hammersmith & Fulham's gross external debt is toward the lower risk end of the scale as an indicator of financial stress. The interest payable as a proportion of net revenue expenditure indicates a slightly riskier position but still does not show to be anything of significant concern. The Council's debt position is not considered to be a significant risk at the time of writing.

## Capital

The Director of Finance is responsible for ensuring that a four-year rolling capital programme and capital strategy is prepared jointly with SLT directors. The Director of Finance must collate capital estimates jointly with SLT Directors to submit them as a capital programme to Full Council. This must be submitted on an annual basis for consideration by Cabinet and before approval by Full Council.

The capital programme must be affordable, prudent and sustainable whilst giving due consideration to the risk, reward and delivery of the Council's business plan. Regular capital monitoring reports are presented to Cabinet. SLT are responsible for reviewing the capital budget monitoring reports on a quarterly basis and taking forward the budget strategy and capital programme. SLT directors are expected to manage service delivery and contain expenditure within agreed capital budgets. Proposals for improvements or alterations to buildings must be approved by the appropriate SLT director. Accountability for each proposal is accepted by a named project manager.

At 2021/22 budget setting, the Council budgeted to spend £162m on capital expenditure for the year. Capital expenditure for the year totalled £95m as per the outturn report. The Council therefore underspent by £67m or a 41% variance from budget.

The 2022/23 budget showed the intention to spend £191m on capital. The total capital outturn for 2022/23 was £140.1m representing a £50.9m underspend or 27% variance from budget.

The Council has attributed the variances from budget to re-phasing, slippage and new budgets being approved during the year. Although there is monitoring of the capital programme at Cabinet, indications are that focus should be turned to setting realistic capital budgets that allow for sufficient lead time before expenditure is likely to be incurred. Inability to set a realistic capital budget undermines the authority's perceived capability to manage its capital budget and deliver its growth plans.

The difficulty in management of the capital programme will become increasingly challenging given the current high level of inflation. We have raised an improvement recommendation in this area. As acknowledged by the Council, capital programmes are complex and affected by procurement, planning, public consultation, funding and financing considerations. The Council must consider the realism in its original budget and consider the prior year outturn when setting the successive year's budget.

# Financial sustainability

## The Dedicated Schools Grant (DSG)

In 2022, the government's local government finance policy statement announced that the statutory override for the Dedicated Schools Grant (DSG) would be extended for the next three years from 2023/24 to 2025/26. The statutory override means that any DSG deficits do not need to be included in the Council's main revenue budgets.

The statutory override only provides temporary relief for Councils to manage their DSG deficits.

When the statutory override expires, Councils will be expected to cover the cost of their DSG deficits themselves. This would likely have to be met from un-ringfenced general reserves.

The risk arises when many Councils consider that their general reserves balance may be close to or less than the amount required to fund their DSG deficit. Many Councils have become dependent on the statutory override to continue complying with their statutory financial responsibilities in maintaining a balanced financial position.

With the statutory override expiring in 2025/26, there is intense pressure for Councils to devise a plan to manage the DSG deficit to mitigate the risk of funding the deficit from reserves and risk fully depleting the general reserves balance.

In June 2022, the government launched the Delivering Better Value in SEND programme. The programme involves sending specialist advisors to probe Council's financial data and try to cut their DSG deficits. CIPFA is a partner in the programme, providing project and change management and financial modelling capacity.

The programme runs alongside the Department for Education's 'safety valve' support scheme that offers bailouts for Councils with the largest SEND deficits in return for the implementation of stringent reform.

Hammersmith and Fulham's safety valve agreement was announced in 2020/21 and updated in April 2023. In line with the agreement, the authority is obligated to reach a positive in-year balance on its Dedicated Schools Grant (DSG) account by the end of 2022/23 and in each subsequent year.

The agreement involves the Council agreeing to increase early intervention activity, development a robust local offer, support schools to meet a higher level of need in a more cost-effective way, review and reform outreach services and implement a case management system to facilitate predictive modelling. The agreement is supported by governance arrangements to manage the reduction of the deficit.

The Council is required to report quarterly in writing to the Department (Funding Policy Unit) on its progress toward implement the action plan. As per the Council's safety valve agreement with DfE, the Council agrees to undertake control and reduce the cumulative deficit as follows:

| Year | Maximum forecast DSG deficit profile at year-end |
|---|---|
| 2020/21 | £22.9m |
| 2021/22 | £23.3m |
| 2022/23 | £23.0m |
| 2023/24 | £22.9m |
| 2024/25 | £21.9m |
| 2025/26 | £20.0m |

The authority is required to inform the Department of any unforeseen difficulties or impacts that could risk the achievement of the agreed financial position. The Department and the Council are to meet in the last quarterly of each financial year to discuss progress and at any other time when the Department deems it necessary. The Council is also to provide the Department with the Schools Forums papers as soon as they are issued.

Nationally, High Needs Block (HNB) budgets are under significant pressure due to rapid increases in and complexity of demand. However, the effects in Hammersmith and Fulham are particularly acute because of historic funding allocation methodologies.

# Financial sustainability

The Council has been putting significant effort toward ameliorating the High Needs Block (HNB) overspend since 2018/19 and has established a comprehensive programme of efficiencies to regularize spend against annual allocations. A programme approach was undertaken with phases one and two now completed, delivering savings with a cumulative effect to 21/22 of £9.3m with no reductions in service delivery.

In 2020/21, the Council reported an adverse in-year variance before £6m of safety valve funding was received. The DSG balance on the High Needs Block was £16.679m in retained deficit as at 31 March 2021 after receipt of the £6m Safety Valve funding.
On 19 March 2021, DfE announced an agreement with five local authorities, including Hammersmith and Fulham, to make a significant contribution to retained deficits. The DfE were writing off £20m of retained deficits over five years which would provide some relief for the large deficit on the schools budget.

In 2021/22 it was noted that the DfE had agreed total £20m safety valve funding in total. The first £6m had been received by the Council in March with a further £4m paid later in the year. The remaining £10m was to be paid over the 2022/23 to 2025/26 financial years.

The Council is forecasting to eliminate the retained HNB deficit by 31 March 2026 following further receipt of Safety Valve funding. Total expenditure on the HNB is forecast to increase by 26.3% from £26.638m in 2020/21 to £33.636m in 2025/26 .

In March 2022, the Council forecast a £12.954m balance on the High Needs Block after including the £4 Safety Valve funding . The outturn position reported in June 2022 ended up being a £11.82m retained deficit which represents a £2.4m favourable movement versus the Q3 forecast. The cumulative deficit position is after the application of the £4.55m Safety Valve funding and £0.3m in HNB 2021/22 underspend.

As per the March 2023 update to Schools Forum, the Council is forecasting a £1m retained deficit on the HNB by 2025/26 (when the Safety Valve agreement ends). The Council is set to receive £3m in 2023/24 and £3m 2024/25 in line with the conditions of the Safety Valve agreement . The monitoring report shows the Council to be predicting a £7.8m deficit position on the High Needs Block of the DSG balanced by 31 March 2023 following the Safety Valve funding of £4m.

Overall, the Council is in a promising position in regard to the management of their DSG deficit. The Council has been compliant with the terms of the Safety Valve agreement and has been systematically reducing the retained deficit on the High Needs Block portion of the DSG deficit.

Based on the Council's forecast, the HNB balance should be £1m by 2025/26. In 2025/26, the Safety Valve agreement ends and the statutory override is set to expire. The Council's current general reserves balance currently stands at £23.3m at the start of 2023/24.

The Council's general reserves balance would therefore more than cover the HNB deficit on the DSG balance, if the Council does not deplete the general reserves balance and the statutory override elapses in 2025/26. The Council must continue its robust monitoring and compliance with the conditions of the DfE to ensure that the deficit continues to reduce as planned.

## Conclusion

The Council enjoyed comfortable performance in 2021/22 and 2022/23 finishing both years with underspends. The medium-term position remains uncertain, with the forecast budget gap proving challenging. However, the Council has a history of strong budget management and an achievable savings plan in place. The Council has directed effort toward improving savings monitoring and reporting, though there is still some room for improvement. The Council's debt position is not considered to be a significant risk at the time of writing. The Council is in a promising position in regard to the management of their DSG deficit. The Council has been compliant with the terms of the Safety Valve agreement and has been systematically reducing the retained deficit on the High Needs Block portion of the DSG deficit.

The HRA is a source of significant concern. The Council is currently in an unsustainable position with regard to the management of the HRA. Efforts are currently being progressed in this area and this must be prioritised. We have found a significant weakness due to the HRA's position and future viability.

# Improvement recommendation 1

## Financial sustainability

| | |
|---|---|
| **Recommendation** | <u>Savings</u><br>• The Council should identify and develop savings early in the budget process to ensure appropriate prioritisation and the necessary level of rigour commensurate with the forecast budget gaps. At present, the Council is forecasting a 2024/25 budget gap that would involve a £18m use of reserves if no additional savings or income generation plans are devised. The Council do not anticipate the materialisation of the need to use reserves as they are relying on developing savings plans. The issue is that 2024/25 is soon approaching and there are currently a lack of developed savings schemes from which to close the budget gap. We recommend reporting clearly the intention to iteratively develop and identify savings so as to provide assurance that the budget gap will be mitigated.<br>• The Council should implement a single, consolidated and regularly updated mechanism that tracks its savings plans. This should include the savings that have been agreed, how they will be monitored and the extent to which they have been achieved. The savings should also be built into the authority's annual budget and medium-term financial plan.<br>• Savings must be publicly agreed and approved by Members and progress against savings plans alongside any variances of deviation from those plans must be publicly reported to Members. |
| **Audit year** | 2021/22 and 2022/23 |
| **Why/impact** | At present, the Council is forecasting a budget gap which is approximately treble the sum of savings achieved in the past two years. The Council must therefore prioritise the identification and development of concrete savings plans from which to bridge this budget gap. If the Council were to fully fund the budget gap from reserves, the reserves balance would deplete by 2024/25.<br>Though the Council can demonstrate that it achieved its overall savings target by the fact that it delivered an underspend on the General Fund Revenue Budget at year-end, there is no way to tell whether the savings ultimately delivered were the savings that were initially approved at February budget setting. The Council must be able to demonstrate that the savings agreed in February continue to be progressed. If the savings plans have changed, these must be visible in the Cabinet reports, with alternatives and mitigations evident. The Council has already demonstrated a clear competence and ability to deliver savings. The task is to now improve the tracking, monitoring and transparency of savings schemes.<br>The Council has not needed to deliver significant savings over the last two to three years. There is therefore the risk that the organisation may take time to gear up to the increased savings challenge that this medium term forecast proposes. |
| **Management Comments** | The Savings Programme (£2.9m for 2023/24) is now considered at the Finance SLT as part of the in year financial performance reporting. It is also being reported separately in the CRM Reports to Cabinet for 2023/24 (with a RAG rating system). This will be continued and replicated at Departmental DMTs. |

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

# Improvement recommendation 2

## Financial sustainability

| | |
|---|---|
| Recommendation | The Council should review and evaluate how it sets it capital budget. Consideration of this will enable it to set more realistic budgets going forward. |
| Audit year | 2021/22 and 2022/23 |
| Why/impact | The Council has attributed the movements from the original budget to the revised budgets to re-phasing, slippage or new grants coming online. Although there is monitoring of the capital programme at Cabinet, indications are that focus should be turned to setting realistic capital budgets that allow for sufficient lead time before expenditure is likely to be incurred. Inability to set a realistic capital budget undermines the authority's perceived capability to manage its capital budget and deliver its growth plans. The difficulty in management of the capital programme will become increasingly challenging given the current high level of inflation. |
| Management Comments | The Council has a strongly developed capital strategy (as set out in the Annual 4 Year Capital Programme Report to Cabinet/Council in February of each year). This is supported by other arrangements (including the Development Board, S106/CIL Board) and a new Corporate Capital Board has been established in 2023/24 (Chaired by AD Finance) to ensure delivery of programmes. Future capital projects are being evaluated using the Treasury Green Book Model and this is intended to improve capital budget planning. |

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

# Governance

## We considered how the local authority:

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

## Risk management

The Council has arrangements in place to identify risks, understand them, record them within the risk management system and assess/score them. Risk management at Hammersmith and Fulham is guided by the risk management strategy statement which was approved in July 2019. The Council is aware of the need to update this and has recently appointed a new Risk and Assurance Manager with one of the priorities over the coming months to review and update the Risk Strategy for LBHF. We recommend that the Council implement a mandated regular review of its Risk Strategy, rather than on an ad-hoc basis. This will ensure that this responsibility does not go unnoticed and a significant time elapses between reviews.

Risk management is a high-profile area for the Council and it is the responsibility of all staff to detect, report and manage risks and discuss ways of mitigating them as part of business-as-usual. Around five years ago the Council established the SLT Assurance Board. SLT meet every week but in their monthly meetings the agenda focuses on risk assurance and governance. SLT Assurance is responsible for ensuring there is sufficient assurance against the key risks and opportunities that influence the council's success, reputation and vision. The meeting is chaired by the Director of Internal Audit. Through discussion with internal audit, we learnt of how this was an example of good practice at Hammersmith and Fulham and indicative of how embedded risk management is at the organisation. In its infancy, the meetings focused purely on the CRR and key internal audit work. It has since developed into a real risk management focused discussion where directors and leads discuss the key risks in their directorates, mitigations, concerns and there is discussion on resolutions.

The SLT devise collaborative approach to mitigating risks, particularly cross-cutting risks – it is a forum for problem-solving/discussion. Internal audit are involved proactively in the process and seen as a trusted advisor and often brought in early to help in the risk assurance work.

For each risk in the CRR, the Council has mapped the risk to the key council priority, allocated the risk to a named senior officer, they are RAG-rated, the direction of travel is delineated and the current position is mapped out. For clarity purposes, we recommend that the Council includes a new column setting out the key controls and assurances for each risk. Though this function is currently being fulfilled by the 'Current position' column, we believe that it would add greater clarity to the register if users were able to point to key controls and assurances in place to seek assurance that the Council is mitigating the risk.

The Council has robust risk management arrangements in place which feed into the Corporate Risk Register. The latest available Corporate Risk Register is for the March 2023 Audit Committee. Over twenty risks were reported to members. We recommended in 2020/21 that the Council considers whether the number of risks reported on the Corporate Risk Register are too numerous. We re-iterate that there are still currently a high number of risks reported to members. Reporting on too many risks does not incentivize members to focus on the priority areas and risks the most important risks being overlooked in the interest of time. This bears a risk to the risk assurance process and the risk management framework in operation at the authority.

# Governance

## Internal audit

The Council has an adequate and effective internal audit function in place to monitor and assess the effective operation of internal controls. This was in place during 2021/22 and 2022/23. The Internal Audit Service is led by the Director of Audit, Fraud, Risk and Insurance and delivers audit reviews across three Councils: The London Borough of Hammersmith and Fulham, Kensington and Chelsea Council (the host borough) and Westminster City Council.

Internal audit formally review the plan every quarter and report the changes to the Audit Committee in update reports and the annual report. The logic surrounding this centres on having a more effective response to new and emerging risks so that the HoIA can be satisfied with the sufficiency of coverage in order to enable internal audit to issue the annual opinion. For 2022/23, 47 audits were completed (compared to 44 in 2021/22) with a further 5 in progress. We believe this shows that internal audit delivers a sufficient amount of work.

The Audit Committee receives sufficient assurance to enable it to assess whether internal controls have operated as expected. The 2021/22 and 2022/23 Head of Internal Audit Annual Reports concluded that reasonable assurance could be provided that the systems of internal control are effective at Hammersmith and Fulham. In 2021/22, 91% of the audits undertaken received a positive assurance opinion with no nil assurance audits reported. In 2022/23, 86% of the audits undertaken received a positive assurance opinion with no nil assurance audits reported for the seventh consecutive year. The number of Substantial Assurance audits remained consistent with previous years with five issued in 2022/23 (seven issued in 2021/22 and five in 2020/21). Due to the way the audit plan is constructed, it is not unusual for some reviews to be given a Limited Assurance rating, however, the HoIA report for 2022/23 indicated that these areas related to specific areas, such as individual schools, and were not indicative of a service wide issue. Internal audit iterate that this does not indicate that there are pervasive issues with the Council's control environment. There is no evidence of sufficient gaps in assurance.

Under PSIA standards, internal audit services are required to have an external quality assessment at least once every five years. The Council has not been reviewed since 2017. In the 2018/19 Head of Internal Audit annual report, the Council stated that this was likely to occur in 2019/20. Issues with assessor absence and roles changes has meant that the Council has not been able to get a review underway until August 2023. This is currently ongoing with the results pending.

The Council has adequate arrangements in place in respect of the prevention and detection of fraud. Work is undertaken by the Corporate Anti-Fraud Services (CAFS), providing a complete, professional counter-fraud and investigation service for fraud attempted or committed against the Council and reinforcing the Council's commitment to preventing, detecting and deterring fraud and corruption.

At the June 2021 Audit Committee, the Council presented three revised anti-fraud policies for the committee to note and comment: the Anti-Bribery Policy, the Anti-Money Laundering Policy and the Fraud Response Plan. The Committee gained assurance that the policies were being kept up to date and were/are fit for purpose.

For 2021/22, the Corporate Anti-Fraud Service End of Year Report identified 131 positive outcomes and fraud with a notional value of over £670k. In the 2022/23 report, CAFS identified 96 positive outcomes including 36 recovered Council properties. The fraud identified has a notional value of over £850k . Notional values estimate the financial savings from counter-fraud work and reinforce the importance of tackling fraud.

## Audit Committee

The purpose of the Audit Committee is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements at the authority. The committee's role in ensuring that there is sufficient assurance over governance, risk and control gives greater confidence to those charged with governance that those arrangements are effective. We recognise that since the May 2022 elections the make-up of the Committee has changed. We make these comments irrespective of specific make-up and rather of the Audit Committee in theory.

The Audit Committee at Hammersmith and Fulham Council is comprised of six members. CIPFA's recommendation in *Audit Committees: Practical Guidance for Local Authorities and Police (2022)* is authorities should strive to have no more than eight members, placing Hammersmith and Fulham within the acceptable range. CIPFA recognises that committees of this size should allow sufficient breadth of experience but is small enough to allow the training and development of a dedicated group.

# Governance

CIPFA guidance emphasises the importance of the separation of executive roles and the membership of the Audit Committee. Where an authority has a cabinet system of governance, as at Hammersmith and Fulham, including a member of the cabinet on the committee is discouraged. We have compared the membership of the Audit Committee with the members of the Cabinet to ensure a clear separation. We can confirm that no members of the cabinet are also members of the Audit Committee, in line with the guidance. We recommend that the Council enshrine in its Constitution the separation of roles and include that it will institute the rule that a period of two years should elapse before a councillor who previously held a senior policy role joins the Audit Committee in line with CIPFA's guidance *Audit Committees: Practical Guidance for Local Authorities and Police (2022)*. Inclusion in the constitution will ensure clarity of process should any confusion/debate arise in the future. Separation of executive roles and Audit Committee allows members of the Audit Committee greater independence in their roles and assists in maintaining a nonpolitical approach.

There are currently no independent members on Hammersmith and Fulham's Audit Committee. CIPFA guidance and the Redmond Review (2020) recommend the committee includes two-coopted independent members. We recommend that the Council considers the merits of appointing appropriately qualified independent members to the Audit Committee. The injection of an external view can often bring a new approach to committee discussions and provides an element of continuity outside the political cycle (though this would be more salient at an authority that had annual changes/elections).

CIPFA guidance dictates that the Audit Committee should report to full council. In line with the guidance, as per Hammersmith and Fulham's Constitution, the committee reports to full Council at least annually.

To discharge its responsibilities effectively, CIPFA guidance recommends the committee meet at least four times a year. Hammersmith and Fulham reiterate this by including in the Constitution that the Committee will meet at least four times a year. In 2021/22, the Committee met five times and in 2022/23, the Committee met four times.

CIPFA guidance recommends that the authority report annually on how the Audit Committee has complied with the position statement, discharged its responsibilities and include an assessment of its performance. At present, the Council does not produce a self-assessment on the effectiveness of the Audit Committee. We have raised an improvement recommendation to that effect.

## Council-owned companies

The London Borough of Hammersmith and Fulham has several companies registered at Companies House. The Council presently has four active limited companies, one of which is about to become dormant and three recently dissolved. The Council is also part of two joint ventures. The Council's active companies and joint ventures and their purpose are as follows:

1. H&F Housing Developments Limited – development of building projects
2. HFS Developments 2 Limited – development of building projects, buying and selling real estate
3. LBHF Ventures Limited – management consultancy, public administration activities, support to performing arts and other information service activities
4. LBHF Family Support Services Limited – family support services
5. HSF Developments LLP – provision of affordable housing
6. West King Street Renewal LLP – development and sale of property

There are risks associated with Council-owned companies as, typically, where companies are council owned that means councils are ultimately responsible for the financial risks and benefits of those companies.

HSF Developments LLP and HSF Development 2 Limited both reported losses for 2021/22. HSF Developments LLP reported a loss of £2,716 in 2021/22 compared to a profit of £1.6m in 2020/21. HSF Development 2 Limited reported a loss of £127k for 2021/22 compared to a loss of £154k in 2020/21.

Hammersmith and Fulham Council is mindful of the need to ensure strong governance of companies and the monitoring of financial risk exposures. There is a clear sense of a corporate grip on the status of companies and their future trajectory – which reduces the risk that companies are being allowed to operate with little central oversight over their activities. The Council recently presented a paper to the Commercial Revenue Committee in April 2023 outlining the companies, their current status and their future direction of travel. The content of the paper shows that the Council is ensuring the companies and the purposes align to the Council's overall Council priorities. The Council is also providing a check on its companies by ensuring that it considers the risk the companies pose at this present moment and the potential risk they pose to the Council in the future – financially and operationally.

# Governance

The risk posed by the Council's companies is further mitigated by the financial position of the companies. H&F Housing Developments Ltd has not traded during 2022/23. No income was received and no expenditure incurred therefore the company made neither a profit nor loss. Though HSF Developments LLP and HSF Development 2 Ltd reported losses for 2021/22, the losses were not significant in comparison to the companies' overall turnover. All audited companies reported unqualified audit opinions for 2021/22. LBHF Ventures Limited and LBHG Family Support Services have minimal activity ongoing at present.

The company that poses the greatest risk at present is West King Street Renewal LLP. The risk is the greatest due to the level of activity and sums of money involved. The Council has invested £32.9m in the company and has a long-term debtor with the LLP of £22.4m relating to the Council's purchase of the Civic Campus units, currently under development. We have considered the Council's arrangements for managing companies and consider the governance arrangements to be effective. West King Street Renewal has a clear governance structure which outlines the partnership between the Council, A2 Dominion and Silver. There is a clear delineation between the Executive Team, Project Leadership Team and Project Team. All activity feeds ultimately into the Joint Venture Management Committee. Monthly reports are produced for the Executive Team.

In terms of overall governance arrangements for the companies in which the Council has an interest, there has been improvement. We recommended in 2020/21 that the Council clarify the role of the Commercial Revenue Committee. The Commercial Revenue Committee did not convene in 2022 and has now been dissolved. The Council do not appear to have reported the work of companies to any committee during 2022, with the last CRC convening in April 2023. We raise an improvement recommendation urging the Council to ensure that the work of companies is monitored appropriately, even if committees are no longer convening.

As of Annual Council in May 2023, the responsibilities of the CRC have transferred to Cabinet. The aim of this change is to raise the profile of, and increase transparency around, its core functions related to approving new high value income opportunities and income generating business cases and undertaking the shareholder functions of any company in which the Council holds shares.

## Leadership and decision-making

Hammersmith and Fulham is a unitary authority that operates with a Leader/Cabinet system. The Council's governance arrangements are explained in the Annual Governance Statement (AGS) and the Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that it is efficient, transparent and accountable to local residents. The latest version of the Constitution was updated in June 2023.

The Council is made up of 50 councillors representing 21 wards. We note that the Council experienced a change following the those charged with governance in 2022/23 as there were elections in May 2022. The Council has elections every 4 years.

In May 2022, Full Council created the Policy and Oversight Board to oversee the Council's overview and scrutiny function, delivered through the Policy and Accountability Committees (PACs). The PACs hold the Cabinet to account, challenge assumptions behind policies and actions of the Council, scrutinize decisions made by partner organisations and ensure an informed evidence-based approach to policy development.

In 2022/23 there were six PACs:

1. Children and Education
2. Climate Change and Ecology
3. Health and Adult Social Care
4. Housing and Homelessness
5. Social Inclusion and Community Safety
6. The Economy, Arts, Sports, and Public Realm

A local authority's statutory officers play a vital role in ensuring the lawful and effective operation of the organisation. Hammersmith and Fulham appointed a new Chief Executive (Head of Paid Service) in May 2023 though they had been serving as the Interim Chief Executive since February 2022. The Council also appointed the Strategic Director of Finance (Section 151 Officer) in June 2023.

# Governance

The Council still has an interim Monitoring Officer who has been in post since May 2022. They are expected to remain in post until February 2024 when, subject to standard recruitment procedures, a permanent successor will be confirmed at the Council meeting. A permanent Assistant Director of Legal Services was appointed in January 2023.

In July 2023, the Council voted to change a number of senior officer job titles and roles including making the Director of Law and Governance now also the Monitoring Officer.

## Employment Tribunal Case

In 2018, a former employee at the Council brought complaints against the authority citing disability discrimination, detriment and automatic unfair dismissal and unauthorised deductions/breach of contract. In 2021, the tribunal concluded that the employee was successful in their claim of discrimination and harassment. Following the tribunal ruling , the financial settlement to be awarded against the Council is expected by the end of the year.

The Chief Executive and Monitoring Officer at the time are no longer with the Council.

The Council recognises the need to have arrangements in place to ensure the factors that contributed to the success of the claimant's case do not persist at the organisation.

## Conclusion

The Council has appropriate risk management arrangements in place for 2021/22 and 2022/23. The Council has an effective internal audit service and Audit Committee arrangements. We have made some improvement recommendations relating to risk management and the Audit Committee. The Council has a reasonably good understanding of the companies in which it has an interest although it will be important to strengthen monitoring in this area.

We note that although significant progress has been made in implementing improvement recommendations from our Annual Audit Report for 2020/21 (presented to the Council in September 2022), a number of areas remain a work in progress. This includes improvements to the reporting of capital outturn, new arrangements for the monitoring of the commercial performance of Council companies and joint ventures, monitoring performance against Council's new corporate objectives, the development of a data quality strategy, and establishing a register of key partnerships. We have re-iterated these recommendations at the end of the key findings section of this report and continue to consider it important that the Council implements audit recommendations on a timely basis.

We have not found a significant weakness in the Council's governance arrangements with regard to their ability to secure value for money.

# Improvement recommendation 3

Governance

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| **Recommendation** | <u>Risk management</u><br>a. We recommend that the Council implement a regular, mandated annual review of its Risk Strategy.<br>b. The Council should consider the number of risks reported on the Corporate Risk Register (CRR).<br>c. We recommend that the Council include a new column in its Corporate Risk Register (CRR) setting out the key controls and assurances for each risk. Though this function is currently being fulfilled by the 'Current position' column, we believe that it would add greater clarity if users were able to point to the key controls and assurances in place to seek assurance that the Council is mitigating the risk. |
| **Audit year** | 2021/22 and 2022/23 |
| **Why/impact** | a. The Risk Strategy was last reviewed in 2019. The Council only seemingly review the Strategy on an ad-hoc basis. Implementing regular reviews will ensure that this responsibility does not go unnoticed and a significant time elapses between reviews.<br>b. Over 20 risks were reported in the March 2023 Corporate Risk Register. Reporting on too many risks does not incentivize members to focus on the priority areas and risks the most important risks being overlooked in the interest of time. This bears a risk to the risk assurance process and the risk management framework in operation at the authority.<br>c. For each risk in the CRR, the Council has mapped the risk to the key council priority, allocated the risk to a named senior officer, they are RAG-rated, the direction of travel is delineated and the current position is mapped out. For clarity purposes, we recommend that the Council includes a new column setting out the key controls and assurances for each risk. Though this function is currently being fulfilled by the 'Current position' column, we believe that it would add greater clarity to the register if users were able to point to key controls and assurances in place to seek assurance that the Council is mitigating the risk. |
| **Management Comments** | The Risk Strategy is being reviewed (and will be updated in 2023/24) and arrangements will be put in place for Annual Review and endorsement by Assurance SLT. The current risks reported on the CRR have been reduced (but it is important that these are comprehensive and reflect the strategic risks that are being faced by the Council). |

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

# Improvement recommendation 4

Governance

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| Recommendation | <u>Audit committee</u><br>a. We recommend that the Council enshrines in its Constitution the separation of executive roles and Audit Committee membership and include that it will institute the rule that a period of two years should elapse before a councillor who previously held a senior policy role joins the Audit Committee in line with *CIPFA's guidance Audit Committees: Practical Guidance for Local Authorities and Police (2022).*<br>b. We recommend that the Council considers the merits of appointing appropriately qualified independent members to the Audit Committee.<br>c. We recommend that the Council reports annually on how the Audit Committee has complied with the position statement, discharged its responsibilities and include an assessment of its performance. |
| Audit year | 2021/22 and 2022/23 |
| Why/impact | a. There are currently no independent members on Hammersmith and Fulham's Audit Committee. CIPFA guidance and the Redmond Review (2020) recommend the committee includes two-opted independent members. The injection of an external view can often bring a new approach to committee discussions and provides an element of continuity outside the political cycle (though this would be more salient at an authority that had annual changes/elections).<br>b. Inclusion in the constitution will ensure clarity of process should any confusion/debate arise in the future. Separation of executive roles and Audit Committee allows members of the Audit Committee greater independence in their roles and assists in maintaining a nonpolitical approach.<br>c. At present, the Council does not produce a self-assessment on the effectiveness of the Audit Committee. Production of this will ensure that the Audit Committee is self-reflecting on its utility and its contribution to the authority's governance arrangements. |
| Management Comments | Both of the matters are noted and will be considered in future plans (remembering that the Council has only 50 members with a number of key executive functions including PAC Chairs etc…). The performance of AC is evaluated and consideration will be given to the suggested Annual Report to Council. |

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

# Improvement recommendation 5

Governance

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| Recommendation | The Council should ensure consistent monitoring of the work of its companies at senior leadership level. |
| Audit year | 2021/22 and 2022/23 |
| Why/impact | In terms of overall governance arrangements for the companies in which the Council has an interest, there has been improvement. We recommended in 2020/21 that the Council clarify the role of the Commercial Revenue Committee. The Commercial Revenue Committee did not convene in 2022 and has now been dissolved. The Council do not appear to have reported the work of companies to any committee during 2022, with the last CRC convening in April 2023. We raise an improvement recommendation urging the Council to ensure that the work of companies is monitored appropriately, even if committees are no longer convening. |
| Management Comments | The Council has only 6 companies (fewer than many local authorities) and of these one is to be dissolved (Family Support Services) and the other is time limited upon completion of Civic Campus (West King Street). A detailed report was considered by Commercial Committee in April 2023 and periodic reports (at least annual) will be presented to Cabinet. The matter is already discussed at all senior levels and will be regularised through Finance SLT to ensure that all financial risk exposures are managed. |

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

# Improving economy, efficiency and effectiveness

We considered how the authority:

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

## Performance and service improvement

As stated in the Governance section above, in May 2022, Full Council created the Policy and Oversight Board to oversee the Council's overview and scrutiny function, delivered through the Policy and Accountability Committees (PACs). The Policy and Oversight Board has oversight of finance, use of resources, performance management (including external assessment of the authority and its services) and the creation and monitoring of new policy development via the PACs.

Hammersmith & Fulham Council has elections every four years. The Council had full Council elections in 2018 and again in 2022. Following the 2018 election, the Council introduced the Hammersmith & Fulham Council Business Plan 2018-2022. Council performance during 2021/22 was therefore guided by this Council Plan. The Council are currently working on their medium-term Council Plan for 2023/24 onwards, this will be published in 2023 and will cover 2023-2026. During 2022/23, Council performance was guided by an annual document titled 'Business Objectives 2022/23.'

The Hammersmith & Fulham Council Business Plan 2018-2022 stated the vision of a Council 'pioneering and relentlessly searching for better answers.' The five overarching priorities were:

1. Building shared prosperity
2. Creating a compassionate council
3. Doing things with residents, not to them
4. Being ruthlessly financially efficient
5. Taking pride in Hammersmith & Fulham

The Business Plan is supported by 152 business plan commitments. At Q4 of 2021/22, the Council was reporting that 86 of the 152 commitments were 'Complete', 49 were 'Green,' 11 'Amber' and 1 'Red.' This performance against the plan in this period is particularly positive considering how much work the Council was doing in 2021/22 in the effort to mobilise to tackle the COVID-19 pandemic. The Council reported against progress on the Council Business Plan quarterly to SLT and Political Cabinet.

The meetings are private and therefore the documentation is not publicly available. We recommended in 2020/21 that the Council report against its Business Plan publicly to ensure openness and transparency. We re-iterate this recommendation as, at present, it is difficult for residents to ascertain how the Council is performing against its commitments in the Council Business Plan. Public reporting of performance can enable residents to fully understand how Council services are performing against stated commitments.

In 2022/23, Council performance was guided by the Business Objectives 2022/23. The Objectives shared the same priorities as the 2018-2022 plan. This was reported to SLT and Political Cabinet bi-annually. The 2022/23 workplan included 144 manifesto commitments with a supporting Commitments RAG Dashboard. At Q4, 84 commitments were reported as Green (58%), 43 were Amber (30%) and no commitments were reported Red.

In general, key services have performed well and the Council was able to point to a number of successes during 2021/22 and 2022/23. For example, Hammersmith & Fulham's Reablement Service was awarded the CQC's rating of Outstanding for the third consecutive time. H&F is among the leading boroughs in London for timely discharges. The Council credit this to the excellent collaboration with local hospitals. The Council received 74 complaints since April 2022 but also received 197 compliments. In March 2023, the Rivercourt project care home was awarded 'outstanding' from the CQC. Hammersmith & Fulham continues to provide care at home for disabled people and older residents at no cost, the only Council in the country to do so. In October 2022, the Council was awarded an 'Outstanding' rating by HM Inspectorate of Probation for its Youth Offending Services.

However, we note that performance within the Housing Service has been the exception in regard to service performance. For a number of years the housing service has been struggling with repairs, complaints and complaints handling. This is discussed in detail in the Housing section of this report.

# Improving economy, efficiency and effectiveness

## Procurement

Procurement is the vehicle local authorities use to spend taxpayer money to achieve council priorities. In the 2021/22 budget, the Council stated the intention to continuously review and develop forward planning for Commissioning and Procurement activities to identify new efficiencies and opportunities, increasing the value for its residents. Continued robust management of the Council's contracts is essential to ensure that they remain resilient during the challenges posed by changes resulting from the trade deal agreed with the European Union in December 2020 and any changes made to UK legislation arising from the UK's exit from the European Union.

The procurement strategy serves as a lever for cascading corporate strategy down to services and capital projects delivered through commercial partners. At February 2023 Cabinet, the Council presented the Sourcing Strategy 2022-26. This serves as the authority's procurement strategy. The report sets out an overarching strategy to improve how the Council sources goods, works and services to secure the best outcomes for residents. The strategy sits alongside the Council's operational governance arrangements including: the Constitution, Contract Standing Orders, the Financial Regulations, Code of Conduct Policies (for Officers & Members), the Anti-Bribery Policy, the Corporate Anti-Fraud and Corruption Strategy and the Gifts and Hospitality Policy. These documents are publicly available on the Council's website to ensure that stakeholders have clear access and the policies and procedures are communicated and understood.

On top of the overarching Sourcing Strategy, the Council will typically produce individual procurement strategies for the significant proposals presented to Cabinet. An example of this is in 2023 the contract for unattended CCTV camera systems presented to Cabinet in January 2023. The document reports a detailed procurement strategy.

The Procurement and Commercial team sits under the Strategic Director of Finance and is currently made up of 10 employees. 5 of these employees are pure procurement professionals while the rest are commercially focused.

Since April 2022, the procurement function has been through a significant improvement journey. We note that a large amount of work has been undertaken to understand the status of the organisation with regard to payments to suppliers and contracts in place.

In April 2022, the Council decided to create an advisory hub focusing on very large procurements. The hub has since worked on developing processes to help the understanding of governance of procurements, process maps to follow, updating documentation, providing training to the whole organisation including drop-ins. The team has built a forward plan which is being reported to SLT on a regular basis. This focuses on significant contracts above £213k.

There has also been enhanced project and programme work, for example, the waste re-procurement work. In 2023/24 the new contract went live and this serves as an example of a re-procurement than ran smoothly with credit to the procurement team and the collaboration with internal and external advice. The Council ensured strategic alignment with the Council priorities, for example the commitments for climate change, with the new procurement. There were two layers of governance to ensure appropriate management and accountability arrangements were in place.

A significant amount of work was undertaken to consider the messaging and mobilisation once the winner of the contract had been decided. Thought was taken to consider the communication to residents and to ensure there was little disruption to delivery. Overall, the Council considers this example to demonstrate how procurement can be managed to ensure better value for money and have since used this experience as a guide for future similar exercises to ensure consistent application of re-procurement arrangements.

The Contract Assurance Board (CAB) is chaired by the Assistant Director of Procurement and Commercial and has representatives from all departments. This forum is where stakeholders can ask the difficult questions on the finances and all decisions relating to procurement strategies, awards, contract variations and modifications (provided it is over £100k) can be discussed. This forum is also where alignment with Council priorities is ensured. All high value items would be discussed here.

In terms of smaller value items, the Council has a strong understanding of the majority of contracts in operation at the authority. In 2023/24, the procurement team performed a significant exercise of reconciling all supplier payments to contracts on the system at that point in time. This is a formidable task and demonstrative of the commitment of the function in gaining a corporate grip of all contracts in operation at the organisation. The team keep sight of this by performing a yearly reconciliation on supplier payments and contracts.

# Improving economy, efficiency and effectiveness

The procurement team report on waivers to the Contracts Assurance Board. For 2021/22, there were 104 waivers to the Contract Procedure Rules in total. The number of contracts above £213,477 was 16 contracts – there are known as 'high value' contracts. In 2022/23, the Council saw similar performance with 107 waivers in the year. There was a slight increase in high value contracts with 20 high value contracts in year. There appears to be strong management of waivers and procurement scrutinise all waivers to the Contract Procedure Rules. However, in our view this appears to be a high number of waivers compared to what we see at other authorities and we have made a recommendation that the Council should consider how it can reduce the numbers to better safeguard VfM through the procurement process.

The main challenge for the procurement team, not dissimilar to most procurement functions at local authorities and the local government sector generally, surrounds recruitment and retention. The ambition is high but the resource scarce. The team appear to be performing extremely well given the circumstances but there does not appear to be the necessary resource to tackle the added extras.

For example, the procurement function does not currently measure its own performance against key performance indicators and measurable actions. There appears to be some tracking of savings generated and consultation with residents but at present the main measure of performance is informal feedback. As the team grows and develops, greater incorporation of tangible indicators of performance in order to demonstrate the function's contribution to the overall council would help to prove its utility in a concrete format.

## Working with partners

Partnership working is central to the delivery of many local authority services. The Council maintains strong partnership arrangements with key stakeholders and has continued to do so during 2022/23. The Council works closely with its statutory partners, commissioned providers, private businesses, community and the voluntary sector to perform its responsibilities.

Integrated Care Systems (ICS) were created as part of the Health and Care Act 2022 and became statutory from July 2022. Upper tier and unitary Local Authorities are required to be members of ICSs as key partners. Hammersmith & Fulham Council is part of the North West London ICS which meets under the Integrated Care Partnership (ICP). The ICP works to deliver the North West London Care Strategy for the population of the eight local authority areas. There is clear evidence of partnership working. For example, in May to June 2023, the ICS worked to engage residents in the draft health and care strategy via a number of public forums. The ICB also launched a new Individual Placement Support (IPS) service to support the unemployed with long term health conditions and/or common health needs.

In 2012, Hammersmith & Fulham, Kensington & Chelsea and Westminster, joined together to create the Tri-Borough Local Safeguarding Children's Board; becoming the three borough Local Safeguarding Children Partnership (LSCP) in 2019. The three borough LSCP arrangement ended on 31 March 2021. On April 1 2021 Hammersmith & Fulham Council formed a new sovereign Local Safeguarding Children Partnership in order to ensure the safety and wellbeing of children and young people in the borough. The decision related to the constraints of member agencies coping with the demands of COVID.

## Conclusion

The Council enjoyed positive service performance during 2021/22 and 2022/23 and can point to a number of successes (for example, in social care, temporary accommodation and the Youth Offending Service). The Housing service however has underperformed during this period (see executive summary on pages 10 to 13 and related key recommendation). It is worth noting that most of the Council's significant services are externally procured – the fact that these perform well is a testament to the procurement service at the authority and a good demonstration of value for money. The Council continues to work well with partners.

# Improvement recommendation 6

Economy, Efficiency and Effectiveness

| | |
|---|---|
| Recommendation | The Council should consider publicly reporting on performance indicators to ensure openness and transparency. |
| Audit year | 2021/22 and 2022/23 |
| Why/impact | In 2020/21, we raised an improvement recommendation for the Council to report publicly on its Business Plan to ensure openness and transparency. We re-iterate this recommendation as, at present, it is difficult for residents to ascertain how the Council is performing against its commitments in the Business Plan. Public reporting of performance can enable residents to fully understand how the Council services are performing against stated commitments and hold members and officers to account. |
| Management Comments | **The Council reports its performance to residents/employees/government departments/regulatory inspection bodies through existing networks including other neighbour authority groups and considerable information is already available thorough nationally published statistics (including OfLog). The Council has reviewed and established a new internal corporate performance dashboard that focuses on key services, staff and customer experiences. This is being embedded and reporting may be further enhanced in the future.** |

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

# Improvement recommendation 7

## Economy, Efficiency and Effectiveness

| | |
|---|---|
| **Recommendation** | The Council should consider how it can reduce the number of tender waivers, in favour of a greater focus on competitive tendering, to better safeguard VfM through the procurement process. |
| **Audit year** | 2021/22 and 2022/23 |
| **Why/impact** | The procurement team report on waivers to the Contracts Assurance Board. For 2021/22, there were 104 waivers to the Contract Procedure Rules in total. The number of contracts above £213,477 was 16 contracts – there are known as 'high value' contracts. In 2022/23, the Council saw similar performance with 107 waivers in the year. There was a slight increase in high value contracts with 20 high value contracts in year. There appears to be strong management of waivers and procurement scrutinise all waivers to the Contract Procedure Rules. However, in our view this appears to be a high number of waivers compared to what we see at other authorities. |
| **Management Comments** | The Council has about 100 contract waivers per year. The requests to waive contract standing orders are evaluated at the weekly Contract Assurance Board (and services are specifically requested for justifications and demonstration of value for money). The vast majority of waivers are below procurement threshold requests and it is important to consider that potential re-procurement costs for low value contracts may not represent value for money. The new forward plan of procurement will assist further in the year ahead. |

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

# Follow-up of previous recommendations

| | Recommendation | Type of recommendation | Date raised | Progress to date | Addressed? | Further action? |
|---|---|---|---|---|---|---|
| 1 | The Council should develop a sustainable strategy for the Housing Revenue Account | Improvement | Sep-22 | The financial resilience of the HRA has been strengthened. A supplementary rent increase was approved in October 2022 (equivalent to 3.1% for 2022/23) and a rent increase in line with the national guidelines was approved for 2023/24. The HRA Business Plan is being updated and will be reported to Cabinet during 2023/24. | No | Significant weakness raised. |
| 2 | The Council should provide to Cabinet a summary total of progress against the planned savings during and at the end of any given year. | Improvement | Sep-22 | The Outturn Report for 2022/23 includes a specific reference to the Savings Programme (attached separately in email) and the financial performance reports in 2023/24 will include a specific schedule on the delivery of the Savings Programme for 2023/24. | Yes | No |
| 3 | The Treasury Management Annual Report should be presented to Cabinet. | Improvement | Sep-22 | The Treasury Management Outturn for 2021/22 was reported to Cabinet in September 2022 and the Outturn for 2022/23 is scheduled to Cabinet for September 2023. | Yes | No |
| 4 | The Council should review its Corporate Risk Register and consider if all the risks are strategic and if the number of could be reduced. | Improvement | Sep-22 | Completed and continuous review in progress through Assurance SLT. | Yes | No |
| 5 | The Council should report capital outturn against the planned capital budget from the start of the year and ensure the budget more accurately reflects the expect capital spend in year | Improvement | Sep-22 | Work continues to be undertaken on capital investment reporting (and the Outturn Report for 2022/23 shows the Quarter 3 budget). | Ongoing | Yes – we will monitor progress in revising capital investment reporting. |

# Follow-up of previous recommendations

| | Recommendation | Type of recommendation | Date raised | Progress to date | Addressed? | Further action? |
|---|---|---|---|---|---|---|
| 6 | The Council should ensure 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.<br>Steps should be taken to ensure that compliance is owned throughout the organisation and not viewed as solely the responsibility of the finance team. | Improvement | Sep-22 | A Self-Assessment Review has been completed and reported to Finance SLT in April 2023). | Yes | No |
| 7 | 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 | Sep-22 | The Commercial Revenue Committee met in April 2023 but has since been disbanded (approved by Full Council in May 2023 as part of the annual Constitution Review). Further work needs to be done to ensure that governance arrangements are strengthened over the monitoring of the performance of companies. | In progress | Yes – we will monitor progress in establishing alternative arrangements. |
| 8 | 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. | Improvement | Sep-22 | A Corporate Plan is being developed during this financial year and will incorporate the key objectives and this will be subject to periodic reporting and update. | In progress | Yes – we will monitor progress in reviewing performance against the new corporate key objectives. |

# Follow-up of previous recommendations

| | Recommendation | Type of recommendation | Date raised | Progress to date | Addressed? | Further action? |
|---|---|---|---|---|---|---|
| 9 | The Council should develop a clear data quality strategy and supporting policy | Improvement | Sep-22 | Work is continuing on this important aspect of the Council's work. | In progress | Yes - we will follow up progress to make sure this is addressed. |
| 10 | The Council should consider if the introduction of benchmarking would be beneficial and explore the very unit costs identified for:<br>- Children social care<br>- Adults social care<br>- Environmental and regulatory services<br>- Central services<br>- Public health | Improvement | Sep-22 | The Council is continuing its work here (with due regard to the requirements of OfLog) and subscribes to the CFO Insights system (set up by Grant Thornton). A high level report is scheduled for Finance SLT in July 2023. | Yes | No |
| 11 | The Council should define its significant partnerships and develop a register that identifies the contribution that partnerships make to the Council's corporate objectives. | Improvement | Sep-22 | Work is continuing on this important aspect of the Council's work. | In progress | Yes – we will follow up progress to make sure this is addressed. |
| 12 | The Council should update its procurement strategy. | Improvement | Sep-22 | A Forward Plan of the key procurements over the next 18 months has been developed to assist services in better planning for procurement of key services (and better integration of services). | Yes | No |

# Opinion on the financial statements for 2021/22

## Audit opinion on the financial statements

We anticipate issuing unqualified audit opinions in  October 2023, following finalisation of the financial statements and approval by the Audit Committee.  This is in respect of 21/22 .The 22/23 audit is still in the planning stage.

## Audit Findings Report- 21/22

More detailed findings can be found in our AFR, which was published and reported to the local authority's Audit Committee on 12 September 2023.

## Whole of Government Accounts

We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.

Note that work is not required as the Council does not exceed the threshold;

## Preparation of the accounts

The local authority provided draft accounts in line with the national deadline.

## Issues arising from the accounts: 21/22

The significant risks are highlighted in the Audit Findings Report (AFR) presented to Audit Committee in September 2023.

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

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

# Opinion on the financial statements for 2022/23

## Audit opinion on the financial statements 22/23

The 2022/23 audit is in progress at the planning stage.

# Appendices

# Appendix A – Responsibilities of the local authority

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.

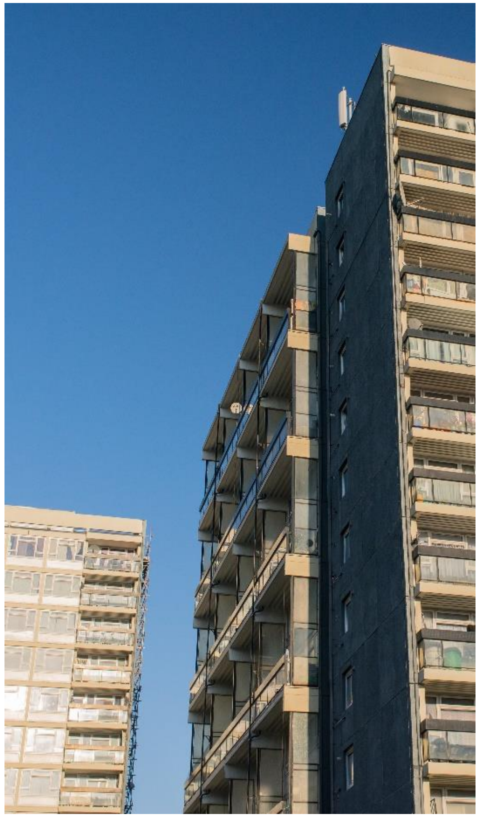
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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 local authority'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 local authority will no longer be provided.

The local authority 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 local authoritys 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:

| Year of audit | Risk of significant weakness | Procedures undertaken | Findings | Outcome |
|---|---|---|---|---|
| 2021/22 and / or 2022/23 | Financial sustainability was not identified as a potential significant weakness, see pages 5 to 26 for more details. | See pages 5 to 26. | See pages 5 to 26. | Significant weakness identified relating to the Housing Revenue Account (HRA). One key recommendation raised. Two improvement recommendations made. |
| 2021/22 and / or 2022/23 | Governance was not identified as a potential significant weakness, see pages 5 to 26 for more details. | See pages 27 to 34. | See pages 27 to 34. | Appropriate arrangements in place. Three improvement recommendations made. |
| 2021/22 and / or 2022/23 | Improving economy, efficiency and effectiveness was not identified as a potential significant weakness, see pages 5 to 15 and 35 to 38. | See pages 5 to 15 and 35 to 38. | See pages 5 to 15 and 35 to 38. | Significant weakness identified relating to the performance of the housing service. One key recommendation raised. One improvement recommendation made. |

# Appendix C – An explanatory note on recommendations

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

| Type of recommendation | Background | Raised within this report | Page reference |
|---|---|---|---|
| Statutory | Written recommendations to the local authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. | No | N/A |
| Key | The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the local authority. We have defined these recommendations as 'key recommendations'. | Yes | Page 9 and 13 |
| Improvement | These recommendations, if implemented should improve the arrangements in place at the local authority, but are not a result of identifying significant weaknesses in the local authority's arrangements. | No | 24 – 25, 31 – 33, 37 – 38 |

# Appendix D – Key sources of evidence

## Staff involved

- Sukvinder Kalsi, Chief Finance Officer
- David Tatlow, Interim Monitoring Officer
- Richard Shwe, Director of Housing
- David Hughes, Director of Audit, Fraud, Risk and Insurance
- Phil Triggs, Tri-Borough Director of Treasury and Pensions
- Matthew Sales, Assistant Director, Programmes, Assurance and Analytics
- Joanna McCormick, Assistant Director Procurement And Commercial
- James Newman, Assistant Director – Finance
- Moira Mackie, Head of Internal Audit

## Documents Reviewed

- Revenue Budget and Council Tax Levels 2023/24
- Four Year Capital Programme 2023-27 and Capital Strategy 2023/24
- Treasury Management Strategy Statement 2023/24
- Revenue Budget and Council Tax Levels 202223
- Corporate Revenue Budget Review 202223 Month 9 December 2022
- Revenue Budget and Council Tax Levels 202122
- Appendix B - Medium term financial forecast as per 2021-22 budget
- 2021-22 - Appendix C - Investment and savings proposals
- 2021-22 - Appendix D - Budget risks
- 2021-22 Appendix E - Government grant funding
- 2021-22 Appendix J - Reserves Strategy
- 2021-22 - Four Year Capital Programme 202122 to 202425 and Capital Strategy 202122
- Internal Audit Plan 2023-24
- 202122 Provisional Revenue Outturn Report
- 23-24 Appendix B Medium term financial forecast
- Statement of Accounts 2021-22
- Unaudited Statement of Accounts 2022-23
- Local Safeguarding Children Partnership Annual Report
- Printed minutes 25012022 1830 Housing and Homelessness Policy and Accountability
- Lyric Theatre Hammersmith 2021-22 Accounts
- HSF Developments LLP 2021-22 Accounts
- HSF Development 2 Limited 2021-22 Accounts
- LBHF Joint Ventures Ltd Companies House Accounts
- LBHF Ventures Limited Accounts
- LBHF Family Support Services Ltd Accounts
- Treasury Management Strategy Statement 202122
- Hammersmith_and_Fulham_safety_valve_agreement_2020-2021_updated
- Medium term financial forecast as per 23-24 budget
- MTFS (May 2023)
- 22-23 Revenue Outturn draft for PC
- Treasury Management Outturn Report 202122
- Public reports pack 05062023 1900 Cabinet
- Public reports pack 06022023 1900 Cabinet
- Public reports pack 05122022 1900 Cabinet
- Head of Internal Audit Annual Report 202122
- Internal Audit Plan 202223
- Procurement strategy - Contract for Unattended CCTV camera system
- LBHF Business Plan 2018-22

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