Auditor’s Annual Report

London Borough of Lambeth Council – year ended 31 March 2024

February 2025

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Introduction

Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for London Borough of Lambeth Council ('the Council') for the year ended 31 March 2024. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the Councl financial statements
We issued our audit report on 28 February 2025. Our audit report includes a disclaimer of opinion. This means our audit report does not express an opinion on the financial statements and no assurance is provided. It is necessary to issue a disclaimer of opinion as amendments to the Account and Audit Regulations introduced a statutory deadline for publication of the Council's financial statements. We are unable to complete the audit procedures necessary to obtain sufficient appropriate audit evidence on which to base our opinion before the date the Council published its audited financial statements.
Our opinion details that we have made a written recommendation under section 24 of the Local Audit and Accountability Act 2014 during our audit of the accounts for the year ended 31 March 2024.

Opinion on the pension fund accounts
We issued our audit report on 28 February 2025. The audit report was qualified on the basis that we could not obtain sufficient assurance over two material items of account.

Value for Money arrangements
In our audit report issued we reported that we had completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Council's arrangements and a summary of our recommendation.

Wider reporting responsibilities
In line with group audit instructions issued by the NAO, we are required to complete a programme of work on the Council's Whole of Government Accounts return and report to the group auditor in line with their instructions. The NAO are yet to provide confirmation on the approach to selecting sampled components. Without this information we are unable to complete our work and issue our certificate which concludes the audit.

The Local Audit and Accountability Act 2014 outlines our additional powers and duties as appointed auditor of the Council. These include issuing a report in the public interest, issuing a written recommendation, application for a court declaration, issuing an advisory notice, issuing an application for judicial review or receiving any objections. We have exercised these powers in the form of a written recommendation and is included as an appendix to this report. The Council is responding publicly to this recommendation on 5 March 2025.

We have also received objections from local electors. We are unable to issue our audit certificate until we have completed the work required to conclude on these objections.

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Audit of the financial statements

Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. Amendments to the Accounts and Audit Regulations introduced a deadline for publication of local authorities audited 2023-24 financial statements. Prior to issuing our audit report, the ISAs require us to determine whether we have obtained sufficient appropriate audit evidence based on the audit procedures completed at that date. We concluded we had not obtained sufficient appropriate audit evidence to enable us to express an opinion on whether the financial statements present a true and fair view and have been prepared, in all material respects, in line with the Code of Practice on Local Authority Accounting. Consequently, as required by the ISAs, we modified our audit report and issued a disclaimer of opinion. This means, in our audit report issued on 28 February 2025, we have not expressed an opinion on the Council's financial statements.

Our audit report details that we have made a written recommendation under section 24 of the Local Audit and Accountability Act 2014 during our audit of the accounts for the year ended 31 March 2024.

We were required to report to management and those charged with governance uncorrected misstatements that we identified and any control deficiencies which came to our attention as part of the audit procedures we completed prior to issuing our audit report. We have no such matters to bring to the attention of the Corporate Committee.

Significant matters discussed with management

During our audit we communicated the following significant matters to management:

- **Implications of the backstop arrangements:** our initial discussions with the Council, based off initial indicative backstop guidance, concluded that we would complete the 2023/24 audit by the initially proposed May 2025 backstop deadline. Following the release of final guidance which revised this deadline to 28 February 2025, we discussed with management the implication of this new guidance, ultimately meaning the opinion on the 2023/24 audit would be disclaimed.
- **Redress capitalisation direction:** To complete our programme of work in relation to the Council's value for money arrangements, we have discussed with management their judgement to account for a backdated capitalisation direction allowing the Council to capitalise further costs in relation to the Redress scheme. For 2023/24, the Council has prepared its draft accounts on the assumption that MHCLG will issue a formal capitalisation direction that enables it to write back £42.9 million of costs back into reserves at 31 March 2023. MHCLG has not yet formally issued a capitalisation direction that supports this accounting treatment. On 10 February 2025, the Council's S151 officer facilitated a meeting between Council officers, MHCLG representatives and ourselves. MHCLG asserted its commitment to providing the capitalisation direction as outlined by the Council. Without the direction, the Council's £30 million general fund reserve at 31 March 2024 would be reduced to nil. The Council have disclosed this critical judgement in Note 49 of the accounts. We consider this a significant judgement but due to the imposition of the backstop date, we have performed no audit procedures on Note 49.
- **Homes for Lambeth (HfL) loan draw downs:** Following the Council's decision in late 2022 to bring back in house the functions of HfL, in the 2022/23 accounts the Council impaired £8 million of share capital and £22.7 million of loan balances with HfL. During 2023/24, HfL drew down a further £20 million of loans from the Council. The Council have judged these loan balances do not need to be credit impaired. Based on discussions with management, the Council have decided to add narrative to the accounts outlining this judgement. If these new loans were required to be impaired, this would have a significant impact on the Council's financial position. The Council have disclosed this critical judgement in Note 20A of the accounts. We consider this a significant judgement but due to the imposition of the backstop date, we have performed no audit procedures.
- **Going concern:** For 2023/24, three of the Council's subsidiary companies' financial statements were not prepared on a going concern basis. Management have judged that the basis of preparation of the subsidiaries financial statements has no impact on the group consolidation or group going concern assessment. The Council have disclosed this critical judgement in Note 20B of the accounts. We consider this a significant judgement but due to the imposition of the backstop date, we have performed no audit procedures.
- **Implementation of IFRS16:** IFRS16 will be implemented for the first time in the 2024/25 Statement of Accounts. Although not relevant to the 2023/24 audit, we discussed the challenges the Council should expect to face based on our learning from NHS audits to assist the Council in its preparations.

Audit of the financial statements

The scope of our Pension Fund audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. Amendments to the Accounts and Audit Regulations introduced a deadline for publication of local authorities audited 2023-24 financial statements. Prior to issuing our audit report, the ISAs require us to determine whether we have obtained sufficient appropriate audit evidence based on the audit procedures completed at that date.

For the Pension Fund we agreed with the Council to carry out the full audit for 2023/24. However, we identified issues with the Fund's ability to support two material balances in the accounts (see below). As a result we concluded that we had not obtained sufficient appropriate audit evidence to enable us to express an unqualified opinion on whether the financial statements present a true and fair view and have been prepared, in all material respects, in line with the Code of Practice on Local Authority Accounting. Consequently, as required by the ISAs, we modified our audit report and issued a qualified opinion.

Significant matters discussed with management

During our audit we communicated the following significant matter to management:

- **Currents assets and current liabilities listings:** we initially identified that the Fund had incorrectly netted off current liabilities against current assets with the draft accounts reporting only current assets of £63.4 million. Based on our challenge management confirmed that the current assets balance should be £77.8 million and current liabilities £14.4 million. In addition, since the start of the audit we encountered significant difficulties with the Fund providing appropriate listings to support the current assets and current liability balances disclosed in the pension funds statements. At the date of issuing the audit report the issue remained unresolved and as such we were unable to obtain sufficient appropriate assurance over the material accuracy over the balances reported and classified as sundry debtors (£53.1 million) within current assets balances reported and classified as sundry creditors (£14.4 million) which represents all the reported current liabilities. This formed the basis of the qualified audit opinion.

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Our work on Value for Money arrangements

VFM arrangements

Overall Summary

VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.

Governance - How the Council ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding or arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks later in this report.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements -** We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the audit.
- **Other recommendations -** We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant, but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness in the current year?	Actual significant weaknesses identified in the current year?	Actual significant weaknesses identified in a previous year and still relevant in the current year?
Financial sustainability	12	Yes – see risk on page 13	Yes – see recommendation on page 23	Yes – see weakness still relevant on page 25
Governance	16	No	No	Yes – see weakness still relevant on page 26
Improving economy, efficiency and effectiveness	19	No	No	Yes – see weakness still relevant on page 27

Background to 2023/24

Local Councils faced a hostile operating environment throughout 2023/24. The Council continues to operate in the face of uncertainty around local government funding reform. Economic aftershocks as a result of global political instability have compounded the financial pressures faced by local government.

Lambeth has a diverse population hailing from a range of socio-economic backgrounds. The impact of high inflation deepened the cost-of-living crisis for residents of the Borough. This in turn has increased the demand placed on the Council's front-line services, particularly in relation to temporary accommodation.

It is these demand pressures that have continued to place pressure on the Council's expenditure levels, ultimately driving overspends against budget for 2023/24, resulting in an eventual deficit for the period of £19.0 million.

Despite financial pressures, the Council continued to support the wellbeing and needs of its residents. Launched in May 2023, the Council announced its Cost of Living Response Action Plan. The plan delivered a number of interventions, reportedly providing financial support to 17,000 children during school holidays, providing direct financial support to 9,000 residents and Council Tax discounts for 5,200 households.

VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements in relation to Financial Sustainability

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

	Risk of significant weakness in arrangements	Work undertaken and the results of our work
1	**Financial sustainability – budgeting for growth and achievable savings** The 2023/24 outturn report identified a total overspend of £19 million. Of this overspend, £10.475 million was contributed by temporary accommodation costs. Despite this overspend, the budget for the service area only allowed for growth of £3.1 million in 2024/25. In December 2023, the savings proposal report to Cabinet identified total achievable savings of £19.3 million for 2024/25. However, in February 2024, the budget for 2024/25 budgeted for savings of £29 million. There is a risk that the Council's budgeting process is building in financial assumptions in relation to growth and savings that are unrealistic.	**Work undertaken** We have reviewed the outcome of the Council's budgeting process for 2024/25 against the most recent outturn and forecasts to determine if budgeted growth and savings included in the initial budget were realistic. **Results of our work** The Council's budget for temporary accommodation costs for 2024/25 was £79.5 million (£76.4 million 2023/24). The Council's 2024/25 quarter 3 reporting reported a forecast overspend of £31.2m for the service area for the year. This was largely attributed to demand pressure. In December 2024 the report to Cabinet stated identified savings of £49.9 million were required over the four years 2025/26 to 2028/29. In February 2025, the report to Cabinet stated that budgeted savings of £101.9 million for 2025/26 to 2028/29 were required due to the inclusion of additional savings and previously unrealised savings. This is resulting in significant planned savings that may not be achievable given many have already not been realised in previous years. The Council has failed to budget for demand pressures in relation to temporary accommodation despite prior year overspends and knowledge of demand pressures owing to the cost-of-living crisis. There is also evidence that the Council is budgeting for savings in excess of those it can identify in its annual saving proposals. This is evidence of a significant weakness in arrangements to budget for realistic cost growth and savings.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Financial planning arrangements

The Council's financial planning arrangements are well established and include a wide range of activities and consultations. Annually, the Council prepares a Medium-Term Financial Strategy (MTFS) which is the overarching final plan. The MTFS is informed by an assessment of financial performance in the prior financial year to identify budget risks. Budget growth is included in the MTFS to address on-going pressures. To ensure that all significant financial pressures are identified, the Council engage with key stakeholders across the organisation and to forecast potential financial challenges.

Prior year outturn is also used as a source to identify potential budget opportunities for savings. Areas of potential savings are identified through discussions with budget holders and targets are agreed with the technical accounting team.

Through the technical accounting team and legal team, the Council keeps abreast of changes in policies, legislation, and economic conditions that could affect the council's financial position. The MTFS will also consider emerging issues, such as changes in funding arrangements, that will have an impact on the Council's budget.

For 2023/24 the Council presented a balanced budget. To achieve this, the Council committed to total savings in 2023/24 of £17.4 million. However, the 2023/24 outturn reported total savings of £13.7 million were achieved during the year. Compounded by budget overspends, the Council reported a total net overspend for the year of £19 million. This was largely funded by draw downs on the general fund. The most significant overspends related to children's services and social care, and temporary housing accommodation.

In line with its financial planning arrangements, the Council completed its planning and set its budget for 2024/25. The 2024/25 MTFS planned for the delivery of a balanced budget. However, the Council's most recent monitoring of performance against the 2024/25 budget has identified a forecast overspend of £34.7 million, with £31.3 million being contributed by overspends on temporary accommodation.

Despite a total overspend of £10.5 million on temporary accommodation, the Council only budgeted for growth of £3.1 million, regardless of mounting cost of living pressures that would likely have an impact on demand for the service. We have considered this failure to budget appropriately for future pressures to be a significant weakness in the Council's budget setting arrangements.

Plans to bridge funding gaps and finding achievable savings

The Council produces a Medium-Term Financial Strategy (MTFS) each year alongside its annual budget. This sets out the resources available to deliver the Council's overall commitment to provide services that meet the needs of people locally over the planned three-year period following the budget year and is updated and extended as part of each year's financial planning process. The Council employs a process of efficiency review and service redesign to identify savings, challenging individual budget holders annually.

In 2023/24, the Council committed to total savings of £17.4 million and achieved a total of £13.4 million. The resulting deficit for 2023/24 resulted in the Council budgeting for savings of £29 million in 2024/25 and a total of £56.6 million of savings across the 4 years to 2027/28.

We have considered this to be evidence that the Council's final planning process is committing to savings that are not achievable, and this therefore represents a significant weakness in the Councils budgeting arrangements.

The Council have recently commissioned a benchmarking exercise to understand the Council's performance and costs with those of similar organisations to identify best practice and areas for improvement.

Ensuring financial plans support the sustainable delivery of services and consistency with other Council plans

The Council ensures that financial plans are closely aligned with the council's strategic objectives and statutory obligations. The development of the Medium-Term Financial Strategy is a council-wide process involving all Directorate teams. There are regular meetings between different services and finance to ensure that there is alignment of financial plans with workforce, capital, and operational strategies.

Key to ensuring the financial plan is consistent with other plans is through consideration of the Lambeth 2030 plan when setting budgets. All financial plans are reviewed and scrutinised by the various committees of the Council in line with the ambitions and requirements of that plan.

VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

To support the sustainable delivery of its future ambitions, the Council has deemed it fit to increase Council tax by the maximum amount of 4.99% in both 2023/24 and 2024/25 to support future spend on services for residents.

Our committee, Cabinet and full Council minute reviews show the Council constantly monitors the outcome of the revenue and capital budget and ensures they are all tying in to working towards the Council's long-term strategy.

Managing risk to financial resilience

The Council carry out regular risk assessments to identify potential financial risks, including unplanned changes in demand, economic fluctuations and policy changes. These assessments are then used to feed into the council's key risk reporting, that is reported to the Corporate Committee quarterly. Financial risks are considered as part of this register to monitor the challenges to the Councils resilience. Based on the evidence attached, it is clear the Council considers financial resilience a key risk.

Budget monitoring also forms a key part of the Council's process for identifying risks to financial resilience. Budget monitoring reports analyse the Council's performance against budget at key points during the year, with the final reporting of outturn against budget annually. This reporting is used to further identify business areas experiencing demand changes and other challenges.

In 2022/23 we identified a weakness in the Council's arrangements in relation to financial resilience. The Council's general fund balance at 31st March 2023 was just £848,000 and future budgets planned for only a £500,000 replenishment of the general fund annually. The Council's most recent budget revised this assessment, with unallocated reserves forecast to hit nil at the end of 2024/25 and to remain at that level through the life of the MTFS. We deem the level of unallocated reserves to be inappropriate given the likely pressures the Council would face key current circumstances, which include a continued increase in pressures on demand for services, impacts of the potential winding up of Homes for Lambeth and uncertainty over future capitalisation directions to meet redress costs.

The Council's general fund balance in the Statement of Accounts was reported to be £30 million at 31 March 2024. However, this is after the inclusion of a prior period adjustment for a capitalisation direction for costs relating to the redress scheme writing £42.9 million back into the 2022/23 reserve. There was still drawing of £14 million during the year. Without this direction the level of reserves would reduce to nil and the Council still relied on significant drawings from reserves in the year.

The most recently published budget, being the 2025/26 budget to 2028/29 reports both general fund and HRA unallocated reserves will hit nil at the end of 2024/25 and remain at that level to 2028/29. Paired with the fact the Council's reserve balance has only recovered due to a one-off technical accounting adjustment and that the Council is still facing considerable financial pressures (particularly in relation to the HRA, for which the Council has publicly requested £40m of further support from MHCLG), we consider the previously identified weakness to remain for 2023/24.

Overall view on arrangements in relation to financial sustainability

We identified a significant weakness in arrangements in relation to the financial sustainability criteria in 2022/23 that remains present for 2023/24. We have also identified an additional new significant weakness in arrangements during 2023/24.

VFM arrangements

Governance

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

VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risk management and monitoring arrangements

The Council outlines its approach to risk management in its formal Risk Management Strategy and Policy. The document outlines the Council's risk management aims, objectives, challenges and benefits. A key output of the policy is the requirement for the Council to maintain a risk register which must be reported to the Corporate Committee quarterly.

There are corporate and operational risk registers in place which are refreshed to reflect any significant changes in circumstances in which the Council operates and the current challenges and opportunities it faces. The Corporate Committee reviews and challenges management on actions being taken in response to the risks that have been identified.

The Council has an independent, in-house Internal Audit & Counter Fraud Service. An annual audit plan is prepared each year that ensures coverage of areas assessed as high risk are reviewed. The plan also balances ensuring coverage of areas across the business cyclically as well as leaving space for thematic reviews as the need arises.

The service completed a total of 30 full reviews and an additional 4 advisory pieces to support the Council. 71% of these reports provided reasonable or substantial assurance. As a result, the overall opinion provided was reasonable (positive) assurance that the Council has adequate systems of governance, risk management and internal control.

The Corporate Committee is regularly updated on the progress of work against the internal audit plan. Our review of Corporate Committee minutes, as well as attendance at meetings, confirms that the internal audit plan is effectively agreed prior to commencement and any weaknesses in controls identified through internal audit's work are highlighted and brought to the committee throughout the year.

The Council also has a clearly defined counter fraud strategy that outlines the Council's approach to preventing and detecting fraud. Progress against the strategy is reported on quarterly to the Corporate Committee and no major issues were reported on during 2023/24.

Budget setting, control and processes for taking corrective action

Key to the Council's process for budget monitoring is the production and reporting of quarterly financial performance reports. This quarterly monitoring gathers information on the Council's financial performance to date and reports year to date spends by directorate. These are then compared to the full year budget and a full year estimated outturn is estimated based on the spend to date. This enables both management and members to identify areas of significant pressure and identify required mitigating actions.

The annual outturn report supports this quarterly reporting. This is reported annually to the full Council and pulls together the Councils full spend against its budget for the year. This identifies key service pressures and is intended to enable members to hold management to account, and identify mitigating actions as required.

At an operational level, the internal audit function is responsible for monitoring and reporting the systems of internal control in place within the Council. These reviews are designed to cover the entirety of the Council's budgetary and management information systems. The work performed by internal audit during the year has not highlighted any deficiencies in these areas.

The budget for housing services spend in 2023/24 was £76.4 million and this was overspent by £10.5 million as reported by the 2023/24 outturn report. Pressures in this service area were reported consistently throughout 2023/24.The most recent monitoring for 2024/25 outturn at Q3 (reported to Cabinet in February 2025) is reporting a total forecast overspend for the year of £34.7 million. £31.3 million of this overspend is being driven by housing services.

Based on continued pressures being identified, largely in relation to temporary housing accommodation, the Council entered a period of 'enhanced spending control' to mitigate and limit the forecast overspend. This involved enhanced recruitment control and enhanced approval processes for spending in a bid to get control of costs in November 2024. Given housing services overspends make up £31.3 million of the total £34.7 million overspend, there is evidence to suggest this is helping the Council retain control of its other cost pressures. However, in January 2024, the Council publicly requested £40 million of support from MHCLG to help balance the Housing Revenue Account and significant overspends in housing services are persisting.

In December 2023, as part of our 2021/22 audit we identified a significant weakness in arrangements in relation to governance and improving economy, efficiency and effectiveness because of the findings of the Kerslake report published in November 2022. We reported in November 2024 that management had not taken corrective action to address these recommendations. We will be reporting as part of our 2023/24 work that the Council has still not taken sufficient corrective action to address the recommendations raised and that the previously identified significant weakness in arrangements remains present.

Overall commentary on the Governance reporting criteria

Decision making arrangements

Items for decision are subject to discussion and scrutiny prior to approval. The Council is transparent in its decision making. Key decision notices are produced and made publicly available via the Council's website. This log of published notices also contains officer decisions that have been approved under the scheme of delegated authorities.

The Council also has an overview and Scrutiny Committee. As part of its function, this committee is in place to challenge decisions taken by the Council and provide transparency of this challenge.

As a result of the Kerslake review, published in November 2022, into affordable housing in Lambeth a significant weakness was identified in relation to the Council's arrangements for informed decision making. The report identified several oversight issues and ultimately highlighted shortfalls in the Council's abilities to exercise oversight and make decisions in relation to the subsidiaries considering their extremely poor performance.

We first reported this significant weakness in arrangements as part of our 2021/22 to the Council in December 2023. As part of our 2022/23 audit, we reported to the Council in November 2024 that the weakness remained present due to a lack of progress against the recommendations provided by the review.

As part of our 2023/24 audit, we have again reported that the weakness remains present. Management reported on progress against the recommendations to the Overview and Scrutiny Committee in September 2024. Despite the progress report identifying progress had been made, much of the report details actions the Council will take in the future. In particular, the Council has made very little tangible progress against the key recommendation of bringing the activities of HFL back in house. The Council have been unable to provide a plan detailing an intended course of action to achieve this. It is likely the in-housing of the operation of HfL will have significant financial implications for the Council.

Ensuring legislative and regulatory requirements are met

As part of its Constitution, the Council has adopted both a Members and an Officers Code of Conduct along with a Local Code of Corporate Governance designed to promote the highest standards of behaviour amongst Members and officers. Mandatory training on the Code is provided by the Monitoring Officer, who also processes complaints which allege a breach of its provisions. An annual report of complaints received is taken by the Monitoring Officer to the Council's Standards Committee.

All committee meeting agenda papers contain as the first item of business the requirement for Members to declare any interests they may have in the business to be conducted.

The Council also has established policies for both Counter Fraud and Corruption and Standards of Business Conduct. These have been prepared in accordance with the Bribery Act and central government guidance on the risk management of conflicts of interest. Employees are informed of changes via the Council's intranet. Senior officers and members are required to make declarations throughout the year. These policies, along with all other policies officers and members are required to adhere to, are included within the Council's constitution.

Overall view on arrangements in relation to governance

We identified a significant weakness in arrangements in relation to the governance criteria in 2021/22 that remains present for 2023/24.

VFM arrangements

Improving Economy, Efficiency and Effectiveness

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

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Assessing performance and evaluating service delivery

The Council has an established performance monitoring framework, which is used to identify areas for improvement. Key to this monitoring is the quarterly outturn to budget reports submitted to Cabinet. These reports hold a detailed breakdown of spend-to-date against budgets. At each year end the Cabinet are presented with the outturn report showing the Council's final position against its initial budget. The Council also report detailed savings and growth trackers to full Cabinet annually as part of this process. This helps councillors understand where financial pressures are being experienced and where the opportunities for savings sit.

The Council review their corporately held KPI's and refresh them each year to ensure they meet the requirement of each directorate's business plans. The resulting KPI and business plan deliverables output is incorporated into the Outcomes Framework for the next year and will also inform wider corporate reporting.

The range of services provided by the Council are subject to external regulation. The Council makes use of these reports to evaluate its own performance. The previous OFSTED inspection in October 2022 returned a 'improvement required' outcome. A focussed visit during August 2023 clearly acknowledges actions being taken and understanding being demonstrated by the services to improve on the previous findings. There have been no other findings from major regulators reported during the year.

As a result of the Kerslake review, published in November 2022, into affordable housing in Lambeth a significant weakness was identified in relation to the Council's arrangements for informed decision making. The report's findings identified that HfL had underperformed. The rationale for the findings relate to how HfL operated, ambiguity in the original brief and poor working relationships with the Council.

We first reported this significant weakness in arrangements as part of our 2021/22 to the Council in December 2023. As part of our 2022/23 audit, we reported to the Council in November 2024 that the weakness remained present due to a lack of progress against the recommendations provided by the review.

As part of our 2023/24 audit, we have again reported that the weakness remains present.

Management reported on progress against the recommendations to the Overview and Scrutiny Committee in September 2024. Despite the progress report identifying progress had been made, much of the report details actions the Council will take in the future. In particular, the Council has made very little tangible progress against the key recommendation of bringing the activities of HFL back in house. The Council have been unable to provide a plan detailing an intended course of action to achieve this. It is likely the in-housing of the operation of HfL will have significant financial implications for the Council.

Effective partnership working

Partnerships are managed on a case-by-case basis, but all arrangements follow the same general principles. The Councils approach to informal partnerships is as follows:

- Joint management teams at partnership lead level where organisational / department plans are agreed.
- Areas of formal agreement of resources and outcomes i.e. Better Care Fund; Mental Health Alliance. These require Cabinet Member sign-off and go to other Member meetings.
- Key areas of performance and development shared at Lambeth executive level as part of performance boards or relevant sub-committees.
- Formal agreements outing the split of costs between partners.

Procurement and commissioning services

Procurement activity is regulated via the council's Contract Standing Orders and Procurement Law under the Public Contracts Regulations 2015. The Council's procurement activities follow best practices and professional standards, ensuring transparency, fairness, and competitiveness and adopts the Cabinet Office Procurement Policy Notes as good practice.

All procurement staff are accredited Advanced Practitioners, and the majority are accredited Contract Managers. Assessment of expected benefits is measured through the Procurement Digest – a quarterly publication that analyses spend data and purchase order compliance.

Contracts awarded to third party suppliers have contract managers assigned to them to ensure the delivery promised in the procurement process is delivered by the supplier. The Council have also increased training around procurement to its staff.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

The council has an electronic Contract Management System (eCMS) to monitor contracts and ensure they are getting the best value and service from the procured services. A Procurement Hub has been created to provide support and guidance to departments.

Overall view on arrangements in relation to governance

We identified a significant weakness in arrangements in relation to the improving economy, efficiency and effectiveness criteria in 2021/22 that remains present for 2023/24.

VFM arrangements

Identified significant weaknesses in arrangements and our recommendations

VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness it its use of resources. These identified weaknesses have been outlined in the table below.

	Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
1	**Financial sustainability – budgeting for growth and achievable savings** The Council's 2023/24 financial outturn report identified a total overspend of £19 million for the year. Of this overspend, £10.5 million was due to demand on temporary accommodation costs. Despite this level of overspend, the budget for 2024/25 for the service area only allowed for increased demand of £3.1 million. By quarter 3 of 2024/25 the Council reported a forecast overspend of £31.2 million for housing services, largely attributed to demand pressure. In addition to the above, in December 2023, the savings proposal report to Cabinet identified total achievable savings of £19.3 million for 2024/25. However, in February 2024, the budget for 2024/25 relied on savings of £29 million to achieve a balanced general fund position, which was considerably above the level of achievable savings identified two months previously largely due to the inclusion of unachieved prior year savings. The Council has failed to budget for demand pressure in relation to temporary accommodation despite prior year overspends and knowledge of demand pressures owing to the cost-of-living crisis. There is also evidence that the Council is budgeting for savings it has previously failed to realise and therefore may not be achievable. Without financial budgeting that is based on realistic assessments of demand and achievable savings, the council risks not being able to deliver services. In our view this is evidence of a significant weakness in relation to financial sustainability, specifically in how the Council plans to bridge its funding gaps and identifies achievable savings and how the body identifies and manages risks to financial resilience.	●			The Council should ensure financial plans build in suitable growth based on prior experience and savings that are achievable. Any savings previously not realised should be assessed for future achievability before inclusion in subsequent budgets.	The recommendation has only recently been made to the Council. The Council is in the early stages of formulating a response.

Identified non-significant weaknesses in arrangements and recommendations for improvement

As a result of our work, we have identified a non-significant weaknesses in the Authority's arrangements to secure economy, efficiency and effectiveness it its use of resources. These identified weaknesses have been outlined in the table below and we provide an associated 'other recommendation' for the Council to improve its arrangements to secure value for money in the use of its resources.

	Identified non-significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
1	**Financial sustainability – Minimum Revenue Provision (MRP)** Local Authorities are required to charge their revenue accounts over time with the cost of their capital expenditure which is funded by borrowing. This is called the Minimum Revenue Provision (MRP) and the calculation of the annual charge must be in line with the Statutory Guidance on Minimum Revenue provision issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. The Council's charge to its revenue account in 2023/24 was £20.9 million and represents an actual revenue cost to the Council. The Council recognised impairments in relation to loans provided to it's subsidiary, Homes For Lambeth. These loans are funded by Council borrowing and an annual MRP is charged over the term of the Council's borrowing. Because of this, under the regulations in place for 2023/24, there was no additional implication of the loans being impaired on the Council's MRP charge. However, in May 2024, new regulations came into effect which will require the Council to charge MRP equal to any expected credit loss allowance, or impairment charge during the year, on loans to its subsidiaries in the same year. The intention to bring back in-house HFL gives rise to the potential for future impairments that will directly impact the Council's MRP charge.	●			The Council should ensure that its future MRP charge is in line with the Regulations issued in April 2024 that started to come into effect in May 2024.	The recommendation has only recently been made to the Council. The Council is in the early stages of formulating a response.

VFM arrangements – Prior year significant weaknesses and recommendations

Progress against significant weaknesses and recommendations made in a prior year

As part of our audit work in previous years, we identified the following significant weaknesses, and made recommendations for improvement in the Council's arrangements to secure economy, efficiency and effectiveness it its use of resources. These identified weaknesses have been outlined in the table below, along with our view on the Council's progress against the recommendations made, including whether the significant weakness is still relevant in the 2023/24 year.

	Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
1	**Financial sustainability – resilience to potential future pressures** The Council's general fund balance at 31st March 2023 was £848,000, which is below the CIPFA best practice of 5% of net expenditure on the provision of services. The Council's published revenue and capital budget for 2023/24 to 2026/27 identifies that the Council has budgeted to replenish its reserve balances by £500,000 annually. In addition, the Council's HRA reserve was just £8.798 million at 31st March 2023. Earmarked reserves in relation to the HRA have decreased steadily since 31st March 2019 from £46.9 million to £18 million in at 31st March 2023. The March 2023 position indicates that the Council was reliant upon reserves to meet the costs of services. This will not be viable in short to medium term given that there are significant risks that the general fund balance will not be sufficient to provide such financial resilience into the future, and the council's plan for their future replenishment of general fund balances will not enable it to recover those balances to CIPFA recommended levels.	Financial sustainability	The Council should take urgent steps to improve its financial resilience through replenishing its general fund balance to an appropriate level, and by setting an achievable programme of savings and determining how it can transform the way services are delivered.	The Council's general fund balance in its draft statement of accounts at 31st March 2024 is stated to be £30 million. However, this is after the inclusion of a prior period adjustment for a capitalisation direction for costs relating to the redress scheme writing £42.9 million back into the 2022/23 reserve. Although accounted for, the capitalisation direction has not been formally approved by MHCLG. There was still drawing of £14 million during the year. The HRA reserve further decreased from £18 million to £14.4 millions at 31 March 2024. In January 2025, the Council made a request to MHCLG for £40m of exceptional financial support in 2024/25. The most recently published budget, being the 2025/26 budget to 2028/29, reports both general fund and HRA unallocated reserves will hit nil at the end of 2024/25 and remain at that level to 2028/29.	We have concluded that the weakness in arrangements still exists during 2023/24. Our recommendation remains outstanding. Our statutory recommendation in relation to the Council's financial sustainability refers to these matters.

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VFM arrangements – Prior year significant weaknesses and recommendations

Progress against significant weaknesses and recommendations made in a prior year - continued

	Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
2	**Governance arrangements in relation to Home for Lambeth** In 2017 the Council established Homes for Lambeth (HfL) as a wholly owned subsidiary company to help deliver it's affordable housing strategy. In April 2020, the Council agreed the first 3-year business plan for HfL, together with a 25-year pipeline capable of providing c. 5,000 homes. Over the course of the first two years the Council became aware that housing delivery needed to be enhanced. In July 2022, the Council commissioned an independent review of the Council's management of, and working relationship with, its wholly owned subsidiary company. The review was commissioned because the company's delivery of new houses was well behind plan, was receiving criticism from some residents and Members had concerns over the governance of the company and the effectiveness of the Council's scrutiny. The report's findings identified that HfL had underperformed. The rationale for the findings relate to how HfL operated, ambiguity in the original brief it was responding to, unclear governance arrangements and poor working relationships with the Council. The report is evidence of weakness in the Council's governance arrangements for managing the performance of Homes for Lambeth, specifically how the Council ensured it made properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.	Governance	To ensure that the recommendations made in the review are acted upon and implemented we recommend that the Council puts in place robust arrangements to monitor the implementation of the action plan. This should include ensuring that the actions have an appropriate and sustainable impact on its affordable housing strategy.	The Kerslake review was published in November 2022 and identified 7 priority recommendations and 6 other recommendations. Management reported on progress against the recommendations to the Overview and Scrutiny Committee in September 2024. Despite the progress report identifying progress had been made, much of the report details actions the Council will take in the future. In particular, the Council has made very little tangible progress against the key recommendation of bringing the activities of HFL back in house. The Council have been unable to provide a plan detailing an intended course of action to achieve this. It is likely the in-housing of the operation of HfL will have significant financial implications for the Council.	We have concluded that the weakness in arrangements still exists during 2023/24. Our recommendation remains outstanding. Our statutory recommendation in relation to the Council's financial sustainability refers to these matters.

Progress against significant weaknesses and recommendations made in a prior year - continued

	Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
3	**How the Council uses information about its performance to improve** In 2017 the Council established Homes for Lambeth (HfL) as a wholly owned subsidiary company to help deliver it's affordable housing strategy. In April 2020, the Council agreed the first 3-year business plan for HfL, together with a 25-year pipeline capable of providing c. 5,000 homes. Over the course of the first two years the Council became aware that housing delivery needed to be enhanced. In July 2022, the Council commissioned an independent review of the Council's management of, and working relationship with, its wholly owned subsidiary company. The review was commissioned because the company's delivery of new houses was well behind plan, was receiving criticism from some residents and Members had concerns over the governance of the company and the effectiveness of the Council's scrutiny. The report's findings identified that HfL had underperformed. The rationale for the findings relate to how HfL operated, ambiguity in the original brief it was responding to, unclear governance arrangements and poor working relationships with the Council. The report is evidence of weakness in the Council's arrangements for improving economy, efficiency and effectiveness and how it uses information about performance to improve the way it manages and delivers its services, specifically assessing how it evaluates the delivery and performance of its affordable housing strategy and identifying areas for improvement.	Improving economy, efficiency and effectiveness	To ensure that the recommendations made in the review are acted upon and implemented we recommend that the Council puts in place robust arrangements to monitor the implementation of the action plan. This should include ensuring that the actions have an appropriate and sustainable impact on its affordable housing strategy.	The Kerslake review was published in November 2022 and identified 7 priority recommendations and 6 other recommendations. Management reported on progress against the recommendations to the Overview and Scrutiny Committee in September 2024. Despite the progress report identifying progress had been made, much of the report details actions the Council will take in the future. In particular, the Council has made very little tangible progress against the key recommendation of bringing the activities of HFL back in house. The Council have been unable to provide a plan detailing an intended course of action to achieve this. It is likely the in-housing of the operation of HfL will have significant financial implications for the Council.	We have concluded that the weakness in arrangements still exists during 2023/24. Our recommendation remains outstanding. Our statutory recommendation in relation to the Council's financial sustainability refers to these matters.

04

Other reporting responsibilities

Other reporting responsibilities

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have made a written recommendation under section 24 of the Local Audit and Accountability Act 2014 during our audit of the accounts for the year ended 31 March 2024.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received objections from local electors. We are unable to issue our audit certificate until we have completed the work required to conclude on these objections.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

In line with group audit instructions issued by the NAO, we are required to complete a programme of work on the Council's Whole of Government Accounts return and report to the group auditor in line with their instructions. The NAO are yet to provide confirmation on the approach to selecting sampled components. Without this information we are unable to complete our work and issue our certificate which concludes the audit.

05

Audit fees and other services

Audit fees and other services

Fees for audit and other services

Our fees (exclusive of VAT and disbursements) for the audit of London Borough of Lambeth Council for the year ended 31 March 2024, and for any non-audit assurance services or other non-audit services provided by Forvis Mazars LLP in the current and prior periods, are outlined below.

Fees for work as the Council's appointed auditor

For 2023/24 PSAA has set the Council's scale fee as £519,894. At this stage PSAA have not prescribed the fees payable for undertaking procedures to issue a disclaimed audit report. We currently estimate that to complete our full VFM responsibilities for the Council, including our extensive engagement with officers in respect of the Council's finances, the minimum backstop procedures, and those above the requirement that had already been completed in good faith ahead of backstop guidance and deadlines being published, to be approximately 60-70% of the scale fee for the Council.

Once PSAA have communicated their determination we will discuss and agree our proposed fees with the Section 151 officer.

In our 2022/23 Auditor's Annual Report, we reported that our final fees for the audit would be £270,638. Based on discussions with PSAA, we are aware of an additional fee for approximately £5,000 in relation to additional audit requirements as a result of ISA315R that were not communicated. We confirm our final fee for the 2022/23 audit we intend to submit to PSAA for approval will be £275,662.

Fees for work as the Pension Fund auditor

Our fees (exclusive of VAT) for the London Borough of Lambeth Pension Fund for the year ended 31 March 2024 are outlined below.

Area of work	2023/24	2022/23
PSAA scale fee	£69,607	£16,170
Additional fees:		
1. New auditing standard (ISA315R)	£7,840	£2,500
2. Level 3 investment testing	Included in scale fee	£4,300
3. IAS19 reporting	-	£3,000
4. Obtaining transaction listings to support testing	£19,000	-
5. Basis of qualified audit opinion	£6,000	-
Total fees	**£102,447**	**£25,870**

Note 1: The 2023/24 proposed additional fees reflects the correspondence received from PSAA for the additional fees associated with the revised auditing standard, ISA 315, relating to the auditor's risk assessment procedures.

Note 2: As outlined in this report, we have faced significant challenges in obtaining from the Fund appropriate information from which we can carry out our planned procedures.

Note 3: We have been required to perform additional work and involve our quality and technical support team to issue a modified audit opinion.

Appendices

Appendix A: statutory recommendation

Appendix A: statutory recommendation

To the Mayor and Councillors 21 February 2025

Recommendations under paragraph 2 of Schedule 7 of the Local Audit and Accountability Act 2014

The Council is in an extremely challenging financial situation. It has significant demand pressures on its services creating budget overspends of £19 million in 2023/24, with £10.5 million relating to temporary accommodation. By February 2025 when the Council published its quarter 3 reporting for 2024/25, the Council forecast a total overspend of £41.6 million, of which £31.3 million relates to housing services and is driven primarily by the demand for and cost of temporary accommodation. In addition, the Council's unallocated General Fund reserves of £31 million for the year ending 31 March 2024 is reliant on a retrospective capitalisation direction received on 18 February 2025 that allowed it to write back £42.9 million of costs back into reserves at 31 March 2023. Even with the direction, in the February 2025 Revenue and Capital Budget 2025/26 and Medium-Term Financial Strategy (MTFS) 2025/26 to 2028/29 report to Cabinet on 24 February 2025, the Council is forecasting that it will have no unallocated General Fund balance for 2024/25 and for the next 4 years. That same report highlights that the Council needs to:

- deliver savings of £46 million in 2025/26. This compares to a £26 million savings target for 2024/25 and £17.5 million for 2023/24 when the Council only delivered £13.7 million, with unachieved savings being carried forward into the next financial year; and
- identify further savings of £52.9 million over the 3 years 2026/27 to 2028/29.

The Council faces further financial pressures on its Housing Revenue Account (HRA). At 31 March 2024, HRA reserves stood at £14 million with only £2,000 shown as unallocated and available for any housing purpose. The Council forecasts that at 31 March 2025 the level of HRA reserves will have fallen further to £5.3 million, which represents less than 3% of housing spend, and is less than the

£10 million that the Council has determined as the minimum level of HRA reserves it needs. The Council's initial estimate in January 2025 showed a forecast £25 million overspend for 2025/26, which would take the HRA into a deficit budget and be a breach of Section 76 of the Local Government and Housing Act 1989. As a result of these challenges, in January 2025 the Council made a request to Government for £40 million of exceptional financial support for its HRA in 2025/26. On 20 February 2025 the Government agreed to provide the £40 million as in-principle capitalisation support.

The Council has yet to implement the key recommendation it agreed after the publication in November 2022 of the Kerslake report on the strategic delivery of new affordable homes in Lambeth.

Appendix A: statutory recommendation

Following the Council's decision in December 2022 to bring back 'in-house' the provision of housing services through Homes for Lambeth, the Council has made insufficient progress. As well as determining the best approach to delivering its aim of affordable housing for Lambeth the Council will also need to identify the financial impact of the actions it decides to take and ensure they are reflected in all budgets and financial plans.

We recommend the Council takes immediate action to:

- identify additional savings and efficiencies to mitigate forecast overspends for 2024/25;
- ensure planned savings and efficiencies for 2025/26 are achievable and put in place cost control measures to avoid overspends;
- replenish the level of unallocated general fund and HRA reserves to those levels deemed prudent by the Section 151 officer;
- reduce the unfunded budget gap within the Council's MTFS; and
- implement the key recommendation of the Kerslake report of bringing the provision of housing services through Homes for Lambeth back 'in-house' and determine the associated financial consequences and the impact on the level of reserves and the MTFS.

We will send these recommendations to the Secretary of State for Housing, Communities and Local Government. The Council is required to consider the recommendations at a meeting held before the end of the period of one month beginning with the day on which we send the recommendations. At that meeting the Council must decide what action, if any, to take in response to the recommendations. The Council is required to publicise the meeting and, subsequently, the decision taken at the meeting.

Yours sincerely,

S Patel

Suresh Patel

Key Audit Partner

For and on behalf of Forvis Mazars LLP

Contact

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