

# London Borough of Havering Value for Money Interim Report

Years ended 31 March 2022 and 31 March 2023

24 September 2024



Audit Committee  
London Borough of Havering  
Town Hall  
Main Road  
Romford RM1 3BB

24 September 2024

Dear Audit Committee Members  
**2021/22 and 2022/23 Interim Value for Money Arrangements Report**

We are pleased to attach our interim commentary on the Value for Money (VFM) arrangements for London Borough of Havering for the financial years 2021/22 and 2022/23.

The new Minister of State responsible for Local Government and English Devolution made a statement to parliament on Tuesday 30 July 2024, setting out the Government's policy proposal for addressing the local government audit backlog. This statement outlines immediate actions the Government - together with the Financial Reporting Council (FRC), the National Audit Office (NAO) and organisations in the wider system - is taking, which are designed to address the backlog and put local audit on a sustainable footing. These now provide helpful clarity on the government's policy intentions and recognise the commitment of finance teams and auditors and the important role that we will all play to restore timely financial reporting.

This report explains the work we have undertaken in respect of our responsibilities for reporting on the Council's Value for Money Arrangements in the two financial years of 2021/22 and 2022/23 and highlights any significant weaknesses that we have identified along with recommendations for improvement. The commentary covers our interim findings for the audit years of 2021/22 and 2022/23. This report is intended solely for the information and use of the Audit Committee and management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 28 November 2024.

Yours faithfully

A handwritten signature in blue ink that reads "MARK HODGSON". The signature is written in a cursive style.

Mark Hodgson  
Partner  
For and on behalf of Ernst & Young LLP  
Encl

01 Executive Summary



02 Value for Money Commentary



03 Appendices



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/auditquality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to Audit Committee and management of London Borough of Havering in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of London Borough of Havering those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of London Borough of Havering for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





BOARDROOM



# 01 Executive Summary

# Executive Summary

## Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditors provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

Appendix C sets out the Council responsibilities for value for money, and the Auditor's responsibilities.

The purpose of this interim commentary is to explain the work we have undertaken during the period 1 April 2021 to 31 March 2023 and highlight any significant weaknesses identified along with recommendations for improvement. As we have previously reported significant weaknesses in arrangements to you, this report also includes our views as to the status of the recommendations made and whether they have been satisfactorily implemented, see Appendix B. The commentary covers our interim findings for audit years 2021/22 and 2022/23. The NAO has confirmed that where VFM reporting is outstanding for more than one year, the auditor can issue one report covering all years.

The new Minister of State responsible for Local Government and English Devolution made a statement to parliament on Tuesday 30 July 2024, setting out the Government's policy proposal for addressing the local government audit backlog. This statement outlines immediate actions the Government - together with the Financial Reporting Council (FRC), the National Audit Office (NAO) and organisations in the wider system - is taking, which are designed to address the backlog and put local audit on a sustainable footing. These now provide helpful clarity on the government's policy intentions and recognise the commitment of finance teams and auditors and the important role that we will all play to restore timely financial reporting.

We are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this interim report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified;
- Findings to date from our planned procedures; and
- Summary of arrangements over the period covered by this report (Appendix A).

We will summarise our final view of the value for money arrangements as part of the Auditor's Annual Report once the audit report has been issued for 2021/22 and 2022/23.



# Executive Summary (continued)

## Risks of Significant Weakness

In undertaking our procedures to understand the body’s arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

We completed our risk assessment procedures and as a result, we identified a significant risk of weakness related to Financial Sustainability. This risk impacts both 201/22 and 2022/23 audit years. We set out our planned response to address this risk in the table below.

Description of risk identified	Audit Year Impacted	Work planned to address the risk of significant weakness
<p><b>Criteria:</b> Financial Sustainability</p> <p>We have identified a risk around the Council’s budget setting and budget monitoring processes as a result of identified overspends in each of the 2021/22, 2022/23 financial years and in relation to the 2023/24 budget (as this was set in the 2022/23 financial year).</p>	<p>2021/22</p> <p>2022/23</p>	<ol style="list-style-type: none"> <li>1. Review of Council’s Medium-Term Financial Strategy 2021/22 to 2023/24 and approach to savings plans, linked to Exceptional Financial Support granted in 2023/24</li> <li>2. Review of the Outturn reports for both 2021/22 and 2022/23</li> <li>3. Review of Council’s Medium-Term Financial Strategy 2022/23 to 2024/25</li> <li>4. Review the Council’s approach to budget setting, linked to the Medium-Term Financial Strategy</li> <li>5. Review the Council’s approach to in-year budget monitoring.</li> </ol>

# Executive Summary (continued)

## Reporting

Our interim commentary for 2021/22 and 2022/23 is set out over pages 10 to 13. The interim commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2021/22 and 2022/23. We include within the VFM commentary below the associated recommendations we have agreed with the Council.

Appendix A (Page 15) includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Auditor’s Annual Report and have been updated for 2021/22 and 2022/23.

In accordance with the NAO’s 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body’s arrangements.

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<b>Financial sustainability:</b> How the Council plans and manages its resources to ensure it can continue to deliver its services	One significant risk identified - as per page 6.	Significant weaknesses identified for both 2021/22 and 2022/23.
<b>Governance:</b> How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified.	No significant risks identified.
<b>Improving economy, efficiency and effectiveness:</b> How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified.	No significant risks identified.

# Executive Summary (continued)

## Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## EY Transparency Report 2023

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2023:

[EY UK 2023 Transparency Report | EY UK](#)





02

## Value for Money Commentary

# Value for Money Commentary

## Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

### One significant weaknesses identified

The Council is required to have arrangements in place to ensure proper resource management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code of Audit Practice, the focus of our work should be on the arrangements that the Council is expected to have in place during the years ended 31 March 2022 and 31 March 2023. Our risk assessment identified one risk of significant weakness in arrangements in respect of securing financial sustainability.

The Council set balanced budgets in the 2021/22 and 2022/23 financial year but have also reflected on the challenges in doing so and the significant budget gaps in future periods, given the continuing demand led pressures facing the Council in the key service areas of Adult and Children's social care. These budgets have also been produced in the context of the global pandemic, inflationary pressures, a cost-of-living crisis and economic uncertainty, all of which has been felt by the Council and residents alike.

The Council's established planned savings targets for each financial year and achieved savings were as follows:

- 2021/22 budget included savings proposals of £17.133 million, of which £11.855 million were achieved with £5.278 million being undelivered; and
- 2022/23 budget included savings proposals of £13.028 million, of which £11.371 million were achieved with £1.657 million was undelivered.

The final outturn position were:

- In 2021/22 there was a £7.994 million overspend on the Council's revenue budget. This overspend led to the additional use of reserves to fund the additional cost pressures and non-delivery of the identified saving requirement.
- In 2022/23 there was a £7.788 million overspend on the Council's revenue budget. This overspend led to the additional use of reserves to fund the additional cost pressures and non-delivery of the identified saving requirement.

Social Care demand pressures in both Adult and Childrens services and the associated significant rising cost of that care together with inflationary pressures in those service areas have been a key driver in the total overspend across both these financial years. Whilst the Council did budget for increasing costs, these assumptions did not fully recognise the pressure that these areas would come under due to the changing demographic and the inflationary pressure experienced in these financial years. These overspends were managed throughout the financial year, mitigating to some extent the earlier in-year budget projections of a higher year-end overspend.

As a result of these overspends and the need to call upon reserves, reserve balance have fallen significantly during this period. Earmarked Reserve balances have fallen from £78.8 million at the start of the 2021/22 financial year to £49.834 million at the end of the 2022/23 financial year. The General Fund balance has fallen from £10.9 million to £8.2 million in the same period. The Council have continued to hold the General Fund Reserve above the minimum level set by the Section 151 Officer, however planned contributions to the General Fund have not been achieved due to the cost pressures experienced across the two financial years.

The Medium-Term Financial Strategy (MTFS) for each financial year has been developed and updated by Officers, being cognisant of the financial challenges facing the Council. The overspends incurred are due to a combination of factors, significant pressures in respect of Social Care have had a significant impact on future budgeting, as well as the impacts of the pandemic on savings achievements. The final MTFS for 2022/23 was approved by Full Council in March 2022. This set a balanced budget for the 2022/23 financial year but demonstrated the significant gap going forward (£26.4 million as part of the 4-year plan to 2025/26), whilst also needing to achieve savings of £27.7 million during the same period.

# Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

One significant weaknesses identified

The 2023/24 Medium Term Financial Strategy (MTFS) was approved at Full Council in February 2023. The papers for that meeting reflect on the significant challenges experienced during the budget process for that year, based on increasing costs driven by demographic pressures locally, as well as macroeconomics. Ultimately a balanced budget was set based on a maximal 4.99% increase to Council Tax, savings proposals of £9.626 million and through additional Government Settlement Funding.

During the 2023/24 year the financial pressures increased, as demand pressures for Adult and Children's and the associated increases in costs for that demand escalated beyond plan. As a result of the significant challenges facing the Council during 2023/24, it sought Exceptional Financial Support from the Government, through a capitalisation direction for £53.7 million (£21.2 million for 2023/24 and £32.5 million for 2024/25, which was granted in February 2024).

Whilst savings plans have been identified to deliver the required £9.626 million of savings in 2023/24, there is still significant challenge for the Council in both setting, and achieving, a balanced budget for future financial years without calling for further exceptional financial support from Central Government.

**Conclusion:** Based on the work performed, we have identified a significant weakness in the arrangements will be reported by exception in relation to the robustness of the budget setting process which ultimately has led to the extent of overspends incurred in 2021/22, 2022/23 and 2023/24 (for which the budget was set in the 2022/23 financial year). The Council did not have proper arrangements in place during this period to plan and manage its resources to ensure it can continue to deliver its services without the need for exceptional governmental support in 2023/24.

**Recommendation:** We recommend that Management continue to demonstrate transparency of the Council's financial planning and monitoring, identify early the need for any future exceptional financial support in each future financial year whilst maintaining the minimum level of General Fund reserves indicated by the Section 151 Officer.

Specifically:

- Both Members and Senior Management should continue take the transparent approach to discussing and addressing the challenging financial position that the Council faces with Central Government.
- The Council needs to continue to identify and address the future budget gaps as part of their working with MHCLG, highlighting the need for Exceptional Financial Support, to enable the continued provision of core services.
- The financial impact of the additional Exceptional Financial Support costs needs to be incorporated into the Council's Medium Term Financial Plans.



# Value for Money Commentary (continued)

**Governance: How the Council ensures that it makes informed decisions and properly manages its risks**

**No significant weaknesses identified**

The Council is required to have arrangements in place to ensure economy, efficiency and effectiveness, and the responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code, the focus of our work should be on the arrangements that the Council is expected to have in place during the years ended 31 March 2022 and 31 March 2023. Our risk assessment did not identify any risk of significant weakness in arrangements in respect to Governance.

During 2021/22 and early 2022/23, several Cabinet meetings were cancelled due to the Covid pandemic. However, Cabinet did meet to discuss updates to the Medium-Term Financial Strategy in October 2021, which set out how increased demand had impacted the position in that financial year, as well as the pressure on balancing the 2022/23 budget. Further financial reviews were taken to Cabinet in the latter half of 2022/23, and regular Budget Monitoring Reports resumed as Cabinet meetings recommenced. Throughout the period, given the prioritisation of Covid response as well as the need to rearrange meetings, Cabinet have received updates on financial performance, and the outturn reports for each year show that action was taken throughout the year to take necessary steps towards minimising in year overspend pressures. Whilst ultimately there was an overspend in each year, these were less than forecast at various points in the year. The s151 Officer continued to monitor the budget monthly throughout this period, and where overruns have arisen, steps were taken to look to address these and ensure overspends do not continue to grow.

Local elections were held on 5 May 2022 to elect Council members, with new election boundaries increasing the total number of councillors to 55. As a result of these local elections, the Council ended in a state of no overall control, and an agreement was reached between the Havering Residents Association (HRA) and Labour to form a coalition, with the leader of the HRA becoming the Leader of the Council, replacing the previous Conservative leadership of the Council.

Internal Audit concluded that they had obtained 'reasonable assurance' in both financial years, that there is generally a sound system of internal control across the Council. The Council considers the findings of Internal Audit for future actions, which has for example led to amendments to the procurement, to follow best practice governance arrangements. The Audit Committee met regularly throughout both financial years, receiving key reports such as those from Internal Audit and the Corporate Risk Register and ensuring that there were appropriate processes for the relevant directorates to keep these registers updated.

The Council published their draft financial statements for both 2021/22 and 2022/23 on a timely basis, in line with the Audit and Accounts Regulations, and advertised and held an inspection period for members of the public in line with these regulations. Therefore, appropriate arrangements for financial reporting were in place during this period.

**Conclusion: Based on the work performed, we have not identified any risks of significant weakness in the arrangements of the Council to make informed decisions and properly manage its risks.**

# Value for Money Commentary (continued)

**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**

**No significant weaknesses identified**

The Council is required to have arrangements in place to ensure economy, efficiency and effectiveness, and the responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code, the focus of our work should be on the arrangements that the Council is expected to have in place during the years ended 31 March 2022 and 31 March 2023. Our risk assessment did not identify any risk of significant weakness in arrangements in respect to Improving economy, efficiency and effectiveness.

The Leadership Team reviews the financial and performance information of the Council monthly. Benchmarking reports are completed internally and externally and included periodically as a line of enquiry to identify where improvements can be made to operational performance or financial performance. Through this work performance indicators for subsequent years are developed and enhanced to continually improve.

The Council have been transparent in acknowledging the increasing difficulties in setting a balanced budget each financial year, which have formed part of the discussions at Full Council on budget setting, and the subsequent warnings (in 2023/24) from the Council Leader and Director of Resources & Section 151 Officer on the worsening financial position, which has ultimately led to Exceptional Financial Support. Budget monitoring reports were evaluated throughout the years to determine areas where overspends are occurring and how these can be addressed in year and future years to reduce these.

During 2021/22, the Council was subject to Ofsted inspection which set out the challenging context of the financial year linked to Covid and the impact this had on the local community. This also set out that some of the pandemic impacts were mitigated by strong, timely corporate and political support, and reflects positively on the Council's awareness of the impact. Identified improvement areas have been recognised by the Council, and an action plan has been implemented which is being actively monitored. These findings are considered by the Council to consider how improvements can be delivered in future years.

The Council continued their close working with subsidiary and joint venture organisations and the governance of these is managed through specific Committees, as well as general oversight through Cabinet and other meetings. The Council have worked closely with London Borough of Newham & London Borough of Bexley under the 'oneSource' arrangement, however the need for bespoke and unique services for each Council has meant that the scope of this arrangement has reduced with the Council taking certain shared services back in-house.

**Conclusion: Based on the work performed, we have not identified any risks of significant weakness in the arrangements of the Council to use information about its costs and performance to improve the way it manages and delivers its services.**





# 03 Appendices



# Appendix A - Summary of arrangements

## Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the years 2021/22 to 2022/23.

### Reporting criteria considerations

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

### Arrangements in place

The Council's Medium-Term Financial Strategy (MTFS) projects financial pressures in future years and the savings that will be required to achieve a balanced budget. The Council uses relevant information to project future pressures, based on available data such as potential inflationary pressures. The MTFS is regularly monitored, including presentation to Cabinet through the year as to how the position has changed. Pressures are disaggregated within the MTFS to demonstrate the different financial pressures that the Council are under.

The development of the 2021/22 & 2022/23 budgets have reflected the impact of the Covid pandemic, which increased both the level of uncertainty in identifying relevant financial pressures and the level of service provision required. The Council has a historic record of creating balanced budgets and delivering challenging savings programmes. A balance budget was set for 2021/22 and 2022/23 and approved by Council in advance of the financial year starting. However, the outturn positions for both 2021/22 and 2022/23 have demonstrated overspends due to inflationary pressures, undelivered savings and unidentified pressures that were not included in initial budgeting. These overspends have been met with use of reserves in those years. In February 2023 the 2023/24 budget was also approved as a balanced budget. The significant financial pressures that the Council continue to monitor escalated during the following financial year, leading to a request for additional support from Central Government to be able to deliver a balanced outturn position.

Given the significant overspend in both 2021/22 and 2022/23 financial years, and the significant overspend that would have been incurred when compared to the 2023/24 balanced budget that was approved during the 2022/23 financial year, we have determined that there was a **significant weakness** in the financial sustainability criteria and the Council's arrangements in place to address the issues arising in 2021/22 and 2022/23. The Council have now secured a Capitalisation Direction for 2023/24 which has allowed for them to balance their outturn position in that financial year.

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

### Reporting criteria considerations

How the body plans to bridge its funding gaps and identifies achievable savings

### Arrangements in place

The MTFS for each financial year has been developed with Officers aware of the financial challenges facing the Council. This is due to a combination of factors, significant pressures in respect of Social Care have had a significant impact on future budgeting, as well as the impacts of the pandemic on savings achievements. The final MTFS for 2022/23 was approved by Full Council in March 2022. This set a balanced budget for the 2022/23 financial year but demonstrated the significant gap going forward (£26.4 million as part of the 4-year plan to 2025/26), whilst needing to achieve savings of £27.7 million during the same period.

The Council have worked to develop budget saving ideas and explore ways to support the council to achieve financial sustainability. This included investigating ways to reduce spend and closely monitoring demographic trends and pressures.

The Local Government Provisional Finance Settlement confirmed additional funding for Adult Social Care. The Council have also increased Council Tax by 1% to fund a Social Care precept, and a further 1.99% general increase to balance the budget. These actions enabled the Council to propose a balanced budget for 2023/24, however gaps remain in future years.

The final outturn position for 2021/22 showed a £7.994 million overspend on the Council's revenue budget. This overspend meant additional use of reserves and balances were required to balance the budget. These were due to the ongoing Social Care pressures and undelivered savings.

The final outturn position for 2022/23 showed a £7.788 million overspend on the Council's revenue budget. Again, Social Care, but also rising costs and inflationary pressures, have contributed to this total overspend. Previous projections for the final overspend peaked at £19.1 million, showing the ongoing work required to achieve savings.

Earmarked Reserves have fallen significantly during this period, from £78.8 million at the start of the 2021/22 financial year to £49.834 million at the end of the 2022/23 financial year. This is alongside a General Fund balance that has fallen from £10.9 million to £8.2 million in the same period.

The 2023/24 MTFS was approved at Full Council in February 2023. The papers for that meeting reflected on the significant challenges experienced during the budget process for that year, based on increasing costs driven by demographic pressures locally, as well as world economics. Ultimately a balanced budget was set based on maximal 4.99% increases to Council Tax, savings proposals of £9.626 million and Government Settlement Funding. During the 2023/24 year demand led financial pressures increased, to such an extent that the Council have sought Exceptional Financial Support, which was granted for application in that year, because of the significant challenges facing the Council's financial position. Whilst savings plans have therefore been identified, they have not always been achieved, and whilst this is linked to unprecedented pressure on finances, this has been reflected as a **significant weakness** in arrangements.

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

### Reporting criteria considerations

### Arrangements in place

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council has a strategic plan that sets out its vision, aims and ambitions going forward (The Havering Vision), focusing on People, Place and Resources themes. The process of developing the MTFs takes account of these aims and objectives, and where possible, looks to include finances to support these aims. The Council has key aims and values which are to be met through decision making and prioritisation when developing the budget.

Pressures on the Council's finances predominantly relate to the statutory responsibilities it has, notably in social care, and the Council has continued to show commitment to ensuring finances are committed to this area. Throughout the period, reporting to Cabinet, Full Council and Audit Committee has been clear in recognising the financial pressure that the Council face and how difficult decisions in respect of spending, and local taxation, would be needed to continue to meet statutory obligations and strategic priorities.

How the body ensures that 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

The Council's financial plans link with other strategies, with the financial implications of these strategies built into the MTFs. Decisions on workforce such as pay decisions are evaluated from a financial perspective, with the results built into the MTFs. The capital programme also forms a key part of the MTFs, with the full Capital Strategy and Programme being presented alongside the MTFs. The MTFs also steers the Capital Strategy, as it helps to determine the affordability of relevant projects. Financial planning brings together other parties, including relevant NHS commissioners, to ensure that the cost implications are built into the financial strategy and are appropriately borne by the responsible body. Financial planning also engages other key partners, such as other London authorities, to allow for collective lobbying to Central Government on shared issues such as adult social care.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Council's budget setting process considers several assumptions, including inflation rates, demographic assumptions and demand led pressures. In planning for 2021/22, this also had to consider assumptions around the future impact of the COVID pandemic, and other challenging assumptions have had to be made in respect of the ability to make savings and other financial pressures faced by residents and the Council alike.

Budgets are reviewed monthly by the Section 151 Officer as part of the monitoring cycle, which would identify any significant changes in demand or underlying issues with assumptions made that lead to additional financial pressures. These can then be investigated further and addressed, as demonstrated in the 22/23 year where the projected overspend was reduced by £2.5 million in the final two months of the year, with the projection of total overspend peaking in the month 3 monitoring report taken to Cabinet. The Council also set a balanced budget for 2023/24 within the 22/23 financial year, and where risk to the financial resilience of the Council arose, the Council have engaged directly with Central Government to secure Exceptional Financial Support where this is required.



# Appendix A - Summary of arrangements

## Governance

We set out below the arrangements for the governance criteria covering the years 2021/22 to 2022/23.

### Reporting criteria considerations

### Arrangements in place

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has an established risk management process including a Risk Management Strategy that is reviewed bi-annually at Governance and Assurance Board and presented to Audit Committee. Governance and Assurance Board is chaired by the S151 Officer and oversees the Risk Management process, reporting to SLT who have wider oversight. The Strategic Risk Register is reviewed quarterly or more frequently as required, for example during the period of Covid response. Risk specialists in the Internal Audit team offer training and support at Directorate level with risk workshops and challenge sessions where needed. The Strategic Risk Registers is reported every six months to Audit Committee with deep dive risk sessions also held.

The Internal Audit plan is developed with input from Governance and Assurance Board, Directors, arising risks noted by the Internal Audit team during the year and key information from various reports. Audit work considers the risk of fraud during each review and quarterly reports on findings, recommendation status and progress towards the audit plan are reported to Audit Committee.

There is an established Counter Fraud team that works proactively and reactively to identify and investigate fraud.

How the body approaches and carries out its annual budget setting process

The annual budget setting process in effect runs throughout the year culminating in tax setting in either February or March. The budget report to full Council contains a medium-term financial plan which sets out the pressures expected for the following year, and the savings requirements for future financial years. In the spring, these assumptions are refreshed, and Councillors are presented with an updated position and expected gap for the following year. The Council then reviews its services using the Councils main three themes (people, place and resources) to identify efficiencies and savings. These proposals are considered by Councillors and, if accepted, full business cases are developed to support the ideas. In the autumn, these proposals are included in a Cabinet report which will also set out the latest expected pressures and inflationary and demographic demand. The budget is then subject to a public consultation period to allow all stakeholders to add their views. The budget is then updated for the local government finance settlement and other corporate matters such as the taxbase, levy determination, collection fund and the cost of the freedom passes for the next year.

The outcomes of the budget consultation are taken to the Overview and Scrutiny Committee to allow Councillors to make any changes following that process. Finally, Councillors will decide at Cabinet the level of Council Tax for the following year to balance the budget and Cabinet in February make a recommendation on the budget and tax level to Full Council for approval.

# Appendix A - Summary of arrangements

## Governance (continued)

### Reporting criteria considerations

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

How the body 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

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

### Arrangements in place

In a typical year, regular finance reviews are taken to Cabinet to monitor both revenue and capital financial positions throughout the financial year to monitor and manage the Council's financial performance. During 2021/22 and early 2022/23, a number of Cabinet meetings were cancelled due to the Covid pandemic. However, Cabinet did meet to discuss updates to the Medium-Term Financial Strategy in October 2021, which set out how increased demand had impacted the position in that financial year, as well as the pressure on balancing the 2022/23 budget.

Further financial reviews were taken to Cabinet in the latter half of 2022/23, and regular Budget Monitoring Reports resumed as Cabinet meetings recommenced. Throughout the period, given the prioritisation of Covid response as well as the need to rearrange meetings, Cabinet have received updates on financial performance, and the outturn reports for each year show that action is taken throughout the year to take steps towards minimising overspends.

Decision making processes are reviewed by Internal Audit as part of their standard scope of work. Quarterly progress reports on delivery of the audit plan, findings and recommendation status are reported to the Audit Committee.

The Audit Committee meets four times per year. Positions are allocated on the Committee in line with the political proportionality of the Council as a whole. Agendas and minutes of all meetings are available on the Council's website, other than any information classified as exempt from publication under Schedule 12A of the Local Government Act 1972. Training is arranged for Members on a regular basis. Meetings of the Audit Committee are also currently webcast and recordings are available for viewing on the Council's website. Information therefore reaches key decision makers in for them to make properly informed decisions.

Key executive decisions are made by Full Council, with reports available in advance of the meeting for scrutiny and challenge. Members have the ability within Full Council to question decision makers on each individual decision.

The Internal Audit plan considers potential risks regarding legislative requirements and is included where it forms a key part of reviews for example in housing. Periodic reviews of gifts and hospitality/declarations of interest etc are factored into risk-based audit planning. There is also a Whistleblowing policy in place which is communicated to officers so concerns can be raised.

Both Member and Officer Codes of Conduct are published in the Council's Constitution and can be viewed on the Council's website. All disclosures of interests are recorded in the minutes of Council meetings and can also be accessed on the Council's website. The register of gifts and hospitality is held by the Monitoring Officer and can also be searched on the Council's website.

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the years 2021/22 to 2022/23.

### Reporting criteria considerations

### Arrangements in place

How financial and performance information has been used to assess performance to identify areas for improvement

The Leadership Team reviews the financial and performance information of the Council on a monthly basis. Benchmarking reports are completed internally and externally and included periodically as a line of enquiry to identify where improvements can be made to operational performance or financial performance. Through this work performance indicators for subsequent years are developed and enhanced to continually improve. The Council have recognised the increasing difficulties in setting a balanced budget each financial year, which reflects the continued pressures on the Council to identify further savings or areas for improvement. Budget monitoring reports are evaluated throughout the year to determine areas where overspends are occurring and how these can be addressed in year to reduce these.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council has a range of ways to measure performance across all aspects of operations. These vary depending on the services being provided but are typically overseen by the relevant Overview & Scrutiny Committee applicable to the service line.

Key statutory responsibilities, such as schools and social care, are subject to review by external agencies such as Ofsted and the Care Quality Commission, who provide detailed reporting on the performance of the Council and associated bodies. During 2021/22, the Council was subject to Ofsted inspection which set out the challenging context of the financial year linked to Covid and the impact this had on the local community. This also set out that some of the pandemic impacts were mitigated by strong, timely corporate and political support, and reflects positively on the Council's awareness of the impact. Improvements have been raised by Ofsted in respect of the quality of analysis within assessments, the rationale for decision-making when stepping down to early help services and the quality of supervision notes including the rationale for decisions. These findings are considered by the Council to consider how improvements can be delivered in future years.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council's fully owned subsidiary, Mercury Land Holdings, facilitates construction and investment in private rental properties within the Borough. The Council also owns three joint ventures (JVs), Havering and Wates Regeneration LLP, Bridge Close Regeneration LLP and Rainham & Beam Park LLP for the development and selling of properties. The governance of these entities includes JV boards (50% council representatives and 50% private sector partner), client board (officer group consisting of S151 Officer, Monitoring Officer, Director of Neighbourhoods, Director of Asset Management and Communications Officer), Regeneration Board (has strategic oversight and reporting and to ensure a level of scrutiny before Cabinet) and the Cabinet (holds decision-making powers). Meetings are held regularly where information is presented including risks and challenges of the project to enable informed decisions. The Client Board and the Regeneration Board were created to monitor performance and to ensure the right level of scrutiny of JV matters. The performance reviews are in the form of regular dashboard presentations and detailed update reports.

The Council is also operating with oneSource. This is a shared back-office support arrangement which is supported by members through a joint committee. The Joint Committee receive key reports and make strategic decisions about oneSource's operations.



# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness (continued)

### Reporting criteria considerations

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

### Arrangements in place

The Council has implemented a formal Gateway management process for Procurement. A new Gateway Review Group (GRG) has been initiated to ensure proper oversight of all in scope procurement activity. This group includes the deputy S151 and legal officers. This group will aim to ensure greater value for money arrangements on Council procurements. GRG will monitor each stage of a procurement to ensure compliance. The use of the Fusion system automatically creates a contract record.

GRG will monitor each stage of a procurement to ensure compliance. The use of the Fusion system automatically creates a contract record. The Gateway reviews check that procurements are run in accordance with Contract Procedure Rules (CPRs) and Public Contracts Regulations (PCRs). The meetings can be observed by officers as a learning and development opportunity.

The Council have developed a new Intranet site, training and guidance to support officers with the new CPR's. The site includes step by step guidance to officers. The new procurement intranet pages will give clear guidance to officers along with clarity on authorisation required within the corporate governance framework. A Contract Register Dashboard has been developed to make contract data more accessible to managers.

# Appendix B – Summary of recommendations

## Recommendations

The table below sets out the recommendations arising from the value for money work in the years covered in this report, 2021/22 to 2022/23.

All recommendations have been agreed by management.

Issue	Recommendation	Management response
<p><b>Financial sustainability</b></p> <p>Our considerations relate to the 2021/22 and 2022/23 financial years only. For both years, a balanced budget has been set which has been followed by material overspends in both financial years. The balanced budget that was set in 2022/23 for the 2023/24 financial year also incurred significant overspends, that lead to the need for London Borough of Havering to seek Exceptional Financial Support from the government.</p> <p>Whilst these overspends are driven by unpredictable demand led pressures, given the level of overspend compared to budget across this period it signifies a significant weakness in the funding arrangements of the Council and the ability to continue to provide key core services without additional central government support.</p> <p>This issue is evidence of weaknesses in proper arrangements for:</p> <ul style="list-style-type: none"> <li>• How the body plans to bridge its funding gaps and identified achievable savings; and</li> <li>• How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities.</li> </ul>	<p>We recommend that Management continue to demonstrate transparency of the Council's financial planning and monitoring, identify early the need for any future exceptional financial support in each future financial year whilst maintaining the minimum level of General Fund reserves indicated by the Section 151 Officer.</p> <p>Specifically:</p> <p>Both Members and Senior Management should continue take the transparent approach to discussing and addressing the challenging financial position that the Council faces with Central Government.</p> <p>The Council needs to continue to identify and address the future budget gaps as part of their working with MHCLG, highlighting the need for Exceptional Financial Support, to enable the continued provision of core services.</p> <p>The financial impact of the additional Exceptional Financial Support costs needs to be incorporated into the Council's Medium Term Financial Plans.</p>	<p>The Council continue to work with DLUHC to ensure that the terms of the Exceptional Financial Support are met, including the approval of two financial improvement plans in July 2024, and a planned assurance review by CIPFA.</p>

# Appendix C – Council and Auditor Responsibilities

## Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

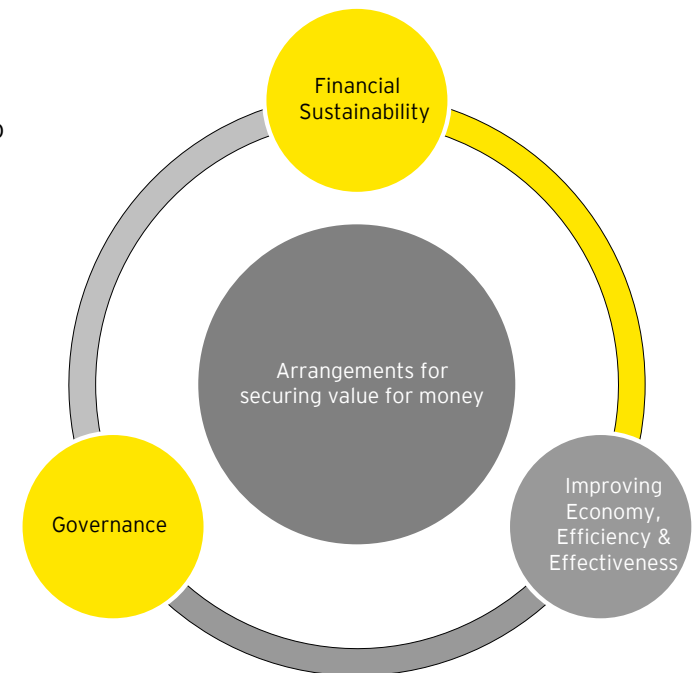
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

## Auditor Responsibilities

Under the NAO Code of Audit Practice, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified 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.





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