

# Auditor's Annual Report on the City of Westminster

## 2021-22 and 2022-23

February 2024



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

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



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.








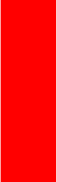

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
# Executive summary (1 of 3)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020-21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the Council's arrangements for 2021-22 and 2022-23 because given the similarity in issues between years and the timing when the work was undertaken. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below. Direction of travel relates to change since 2020-21 as this report covers two years.

**One significant weaknesses was identified in the Council's arrangements for value for money (VFM) resulting one key recommendations relating to improving economy, efficiency and effectiveness, in respect of housing.**

Criteria	Risk assessment	2020/21 Auditor Judgment	Combined 2021/22 and 2022/23 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	 No significant weaknesses in arrangements identified and no improvement recommendations made.	 No significant weaknesses or improvement recommendations made.	
Governance	No risks of significant weakness identified	 No significant weaknesses in arrangements identified, but one improvement recommendation made.	 No significant weaknesses in arrangements identified, but a series of improvement recommendations identified.	
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	 No significant weaknesses in arrangements identified, but one improvement recommendation made.	 One significant weaknesses in arrangements identified resulting in one key recommendations and other improvement recommendations.	

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

# Executive summary (2 of 3)

## Financial sustainability



On 17 February 2022, the Cabinet approved the Capital Strategy 2022-23 to 2026-27. The Council has a gross capital programme up to 2035-36 of £2,751m, offset by £1,260m of funding, giving a net budget of £1,491m to be funded via borrowing. The cost of borrowing is built into the revenue implications of this Strategy. There are clear links in the Capital Strategy to the Council's four pillars. The planned HRA capital spend for 2022-23 was £197m.

The Council has a commercial investment property portfolio of £120m forming part of its Investment Strategy. The Council has also invested £30m in a residential housing partnership. The Council's group assets were valued at £3,450m on 31 March 2023 an increase of £575m from the previous year. These are reflected in the Council's financial plans.

In 2022-23 the Council identified £16.7m of savings and achieved £13.58m. In March 2023, the Council identified £25.9m of savings in 2023-24. It also identified a budget gap of £56.8m over the next three years. By November 2023, 81% of these savings were either on target to be achieved in year or were achieved. Savings are identified over the Medium-Term Financial Plan (MTFP) but focus on the current financial year. For example, in March 2023, the Council identified £28.50m of new savings by the end of 2026-27 of which £15.25m were in 2023-24. It also identified £17.47m of existing planned savings by end of 2024-25. Work is underway to identify additional pressures, possible efficiencies and other savings plans through a zero-based budget exercise for 2024-25. There is a shortfall in savings identified and the budget gap and this remains a key focus for financial planning.

On 8 March 2023, the Full Council approved its net General Fund budget of £193.61m for 2023-24 and identified a forecast gap of £56.8m over the following three years. In 2023-24 the Council set working balances of £51.6m. The Council received dedicated schools grant (DSG) of £185.027m to support local authority schools. The Housing Revenue Account (HRA) revenue budget was approved at £123.48m. In 2023-24 the HRA was predicting surpluses over each of the next five years.

## Governance



The Council's Risk Management Strategy was updated in 2022 and is currently being reviewed again. The CRR does not include a target risk date or assurances, or direction of travel. Westminster Builds does not have its own risk register which it should have given the size of the company. Some risk improvement to the pension fund risk arrangements are needed both risk registers need to add assurances and target risk scores. **We made an improvement recommendation, in respect of risk management.**

In 2021-22 we received a whistleblowing allegation direct to us in respect of certain capital procurement arrangements. This considered whether the capital procurement undertaken had complied with the Council's procurement arrangements, whether the services procured were fit for purpose and been received and whether, the subsequent investigation commissioned by the Council was fit for purpose. On receipt of concerns and allegations, the Director of Corporate Services commissioned an independent investigation. This was undertaken by a previous Chief Internal Auditor, independent of the Council and was supported by the Council's internal audit and counter-fraud team, and HR. The internal audit team concluded no evidence of fraud. However, they did identify a series of control improvements. This was a small capital procurement team, sitting within the Council property team. There has been a subsequent restructuring of that team with the team members involved no longer employed by the Council. In reviewing the work undertaken by internal audit, the independent review, and the subsequent disciplinary investigations, we noted areas where in the future Council arrangements could be improved. **We made an improvement recommendation on procurement arrangements.**

# Executive summary (3 of 3)



## Governance (continued).

The Council established a Shareholder Committee in 2021-22 that first met in December 2021. At the March 2023, Shareholder Committee, officers were asked whether Westminster Builds was subject to adequate scrutiny. Westminster Builds comprises two private limited companies with officers as directors. The Capital Budget proposals for Westminster Builds projects over the next five years is £215.08m funded by the Growth, Planning and Housing general fund via a loan to Westminster Builds. The Deputy S151 who is a Board Director for Westminster Builds identified it had no formal risk management arrangements in place in November 2023. **The Council needs to update its financial regulations and include reference to its businesses, and we make an improvement recommendation to this effect.**

## Improving economy, efficiency and effectiveness

The Fairer Westminster Strategy sets the Council's vision. It has five themes - Fairer Communities, Fairer Environment, Fairer Economy, Fairer Housing and Fairer Council. In 2021-22 and 2022-23 we identified an opportunity for the arrangements to be further strengthened, including benchmarking services with other neighbouring London boroughs. We also identified a failure to meet minimum service standards in food safety in 2021-22 and in 2022-23 that continued into 2023-24 although internal audit have reported positive progress against their agreed action plan. **We have identified one improvement recommendation in respect of addressing the backlog in food safety reviews.**

In 2021-22 and 2022-23 the housing service needed improvement. The Council's HRA Strategic Asset Management Plan for 2021-22 and 2022-23 was dated 2013. The Council's housing strategy, which focuses on supply of social housing, was dated 2015. While no longer a statutory requirement, we would note that production of these strategies are aligned to best practice standards. In 2021-22 and 2022-23 the Council achieved over 99% compliancy with the decent homes standards. From 2023, the Council formalised its Corporate Housing Improvement Programme and focused new and additional leadership capacity on driving improved housing services. This work looked to improve services across a number of areas, initially focusing on deep dive into compliancy areas including Gas, Electricity, Fire, Water Safety, Asbestos, and Lift management. Survey work was also commissioned in December 2023 to survey all communal fire safety doors and to carry out flat door checks. In 2022, the Council procured a one-year stock condition survey that delivered 720 internal surveys and 632 external surveys, as part of a rolling stock programme. This has since been supplemented by both procurement to a new condition survey provider and archetype condition surveys. The council has also commissioned Ridge & Partners LLP to build and define a new Strategic Asset Management Plan (SAMP). Other priorities within the improvement programme include repairs, complaints, and our work with the most vulnerable

On 3 April 2023, the Housing Ombudsman issued a press statement having found severe maladministration. This was the first case reported at the Council. The Council had failed to tackle damp and mould in a resident's home for over two years, despite knowing that there was a four-month-old living there when the problem was first reported. In October 2023 Audit and Performance Committee saw an annual performance report from the Housing Ombudsman. It showed increasing levels of maladministration from 2021-22 and 75% of the 4-building safety cases compared with 52% of other local authorities. Between 2021-22 to 2022-23 the maladministration rate increased from 29% to 61%. **We identify that the Councils housing services and are in need of improvement and make a key recommendation on page 6.**

The Council has an important responsibility to ensure that procurement and contract management arrangements maximise the use of public finances, that value for money is achieved, and procurement delivers strategic priorities. **We make an improvement recommendation to enhance the Council's procurement arrangements.**

# Key recommendation 1

## Improving economy, efficiency and effectiveness



### Key recommendation 4

The Council has put in place a corporate housing improvement programme. It is important that this is implemented with sufficient pace, to rectify the improvements which have been identified. This includes feedback from the Housing Ombudsman, readiness for regulatory change and feedback from our residents. Priorities include a focus on repairs, complaints, understanding and monitoring the Councils stock position and our work with the most vulnerable.

### Why/impact

The Council needs to improve its housing service to ensure it meets the needs of its residents and its continued responsibilities as a landlord, including the regulatory changes taking place in housing

### Auditor judgement

The Council needs to improve its housing services to ensure it meets its requirement and the needs of residents

### Summary findings

In 2021-22 and 2022-23 the housing service needed improvement. The Council's HRA Strategic Asset Management Plan for 2021-22 and 2022-23 was dated 2013. The Council's housing strategy, which focuses on supply of social housing, was dated 2015. While no longer a statutory requirement, we would note that production of these strategies are aligned to best practice standards. In 2021-22 and 2022-23 the Council achieved over 99% compliancy with the decent homes standards. From 2023, the Council formalised its Corporate Housing Improvement Programme and focused new and additional leadership capacity on driving improved housing services. This work looked to improve services across a number of areas, initially focusing on deep dive into compliancy areas including Gas, Electricity, Fire, Water Safety, Asbestos, and Lift management. Survey work was also commissioned in December 2023 to survey all communal fire safety doors and to carry out flat door checks. In 2022, the Council procured a one-year stock condition survey that delivered 720 internal surveys and 632 external surveys, as part of a rolling stock programme. This has since been supplemented by both procurement to a new condition survey provider and architype condition surveys. The council has also commissioned Ridge & Partners LLP to build and define a new Strategic Asset Management Plan (SAMP). Other priorities within the improvement programme include repairs, complaints, and our work with the most vulnerable.

On 3 April 2023, the Housing Ombudsman issued a press statement. It found severe maladministration for the Council after it failed to tackle damp and mould in a resident's home for over two years. Since November 2022, mould, and damp reporting in Council homes increased by about 82 cases per month - an increase of 72%. In October 2023 Audit and Performance Committee saw an annual performance report from the Housing Ombudsman. It showed increasing levels of maladministration from 2021-22 and 75% of all the Council's maladministration related to building safety compared with 52% of other local authorities. Between 2021-22 to 2022-23 the maladministration rate increased from 29% to 61%. During the same period, the housing management service (HMS) received 322 complaints and only responded to 32% of these on time and only 26% of their stage 2 complaints.

# Key recommendation 1 [continued]



## Improving economy, efficiency and effectiveness

### Management comments

Our aim is to provide excellent housing services to all our residents, but we know that these services have not always been good enough. That's why in April 2023 we introduced a council-wide Housing Improvement Programme in order to deliver the step change required in the delivery of our housing services. Through this programme, we are reviewing all areas of the service, to identify what's working well and the areas we need to deliver improvements for our residents and to ensure we meet our continued responsibilities as a landlord, including the regulatory changes taking place.

The Council has made structural change in order to provide additional senior leadership focus and capacity in housing. In June, a new stand-alone Housing and Commercial Partnerships Directorate was established. The effects of these changes mean that housing has closer accountability to the Chief Executive, has increased senior capacity and is further supported by a change and transformation budget of up to £3m of funding to support an injection of short-term capacity into targeted areas of the Housing service. These changes make it clear that improvement in housing is a key priority for the council. The focus will continue to be on supporting our housing teams to deliver the best possible services for our residents and communities with the experience and feedback received from residents being used to inform continual service improvement.

# Use of auditor's powers

We bring the following matters to your attention:

	2021-22 and 2022-23
<p><b>Statutory recommendations</b></p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly</p>	<p>We did not make any statutory recommendations.</p>
<p><b>Public Interest Report</b></p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.</p>	<p>We did not issue a public interest report.</p>
<p><b>Application to the Court</b></p> <p>Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.</p>	<p>We did not apply to the Court under Section 28.</p>
<p><b>Advisory notice</b></p> <p>Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:</p> <ul style="list-style-type: none"> <li>• is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,</li> <li>• is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or</li> <li>• is about to enter an item of account, the entry of which is unlawful.</li> </ul>	<p>We not issue any advisory notices.</p>
<p><b>Judicial review</b></p> <p>Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.</p>	<p>We did not apply for a judicial review.</p>



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

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

Council's report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

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

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



## Financial Sustainability

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



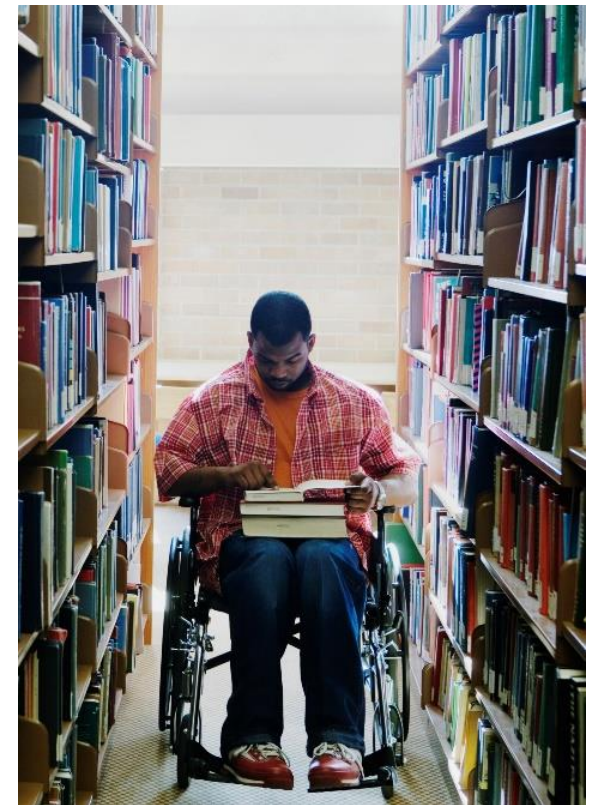
## Governance

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



## Improving economy, efficiency and effectiveness

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 12 to 30.

# Financial sustainability (1 of 4)



## We considered how the Council:

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

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

On 3 March 2021, the Full Council approved its net general fund budget of £182.75m for 2021-22. This included £22.40m of savings through a combination of financing, commercial, transformation and efficiency activities. Council tax for a Band D property was agreed at £463.90 for 2021-22, an increase 3% for the Social Care precept and 0.5% for general purposes. The tax base for Westminster increased to 133,818 Band D equivalent properties – an increase of 1,120. The Council received £167.75m of DSG. The HRA budget for 2021-22 was also approved. The planned capital spending for 2021-22 was £209.52m. Rents increased by 1.5%. The 2021-22 general fund outturn position was a £2.04m overspend funded through general reserves.

On 2 March 2022, the Full Council approved its net general fund budget of £184.86m for 2022-23. This included £16.70m of new savings. The budget included a freeze in general council tax and an increase of 1% for the Adult Social Care precept. At Band D this resulted in an annual increase of £4.64 to £468.54. The Council's tax base increased to 135,056. The Council received DSG of £174.50m, a 2.2% increase on 2021-22. The HRA expenditure budget was approved at £112.78m. Rents increased by 4.1% in 2022-23 generating £3.2m in additional rental income. The 2022-23 outturn position was a £2.97m underspend against budget. The revenue underspend increased the Council's general reserve balance by 3.5% to £60m. The HRA outturn was a surplus of £5.14m this was linked to a £nil borrowing requirement on the 2022-23 HRA capital programme due to additional GLA grant for the Ebury regeneration scheme.

On 8 March 2023, the Full Council approved its net general fund budget of £193.61m for 2023-24. This included £25.90m of new savings. The budget was balanced for 2023-24 but there is a forecast gap of £56.8m over the following three years.

The 2023-24 budget included a freeze in the general council tax and an increase of 2% for the Adult Social Care precept. At Band D this resulted in an annual increase of £9.37 to £477.91. The Council received DSG of £185.02m. The HRA revenue budget was approved at £123.48m and rents increased by 7%.

HRA reserve resources of £0.60m are allocated to increase stock condition survey volumes in 2023-24, with a focus on internal condition (including potential damp and mould issues). This funding is also being used to undertake remedial repairs identified in the survey. An additional £0.62m is built into the HRA reserve budget to improve housing stock safety to support an enhanced building safety inspection regime. This is a response to the additional duties placed on the Council as a landlord under the Building Safety Act. In 2023-24 the HRA was predicting surpluses over each of the next five years.

The Council has a commercial investment property portfolio of £120m forming part of its Investment Strategy. In 2022-23 £27m of this was allocated in year. The Council has also invested £30m in a residential housing partnership. The Council's group assets were valued at £3,450m on 31 March 2023 an increase of £575m from the previous year. These are reflected in the Council's financial plans. The group is discussed on page 21.

In both years, the Section 25 statements in the Cabinet budget papers referenced the reserve levels and external impacts on the estimated budgets and confirmed reserve levels were appropriate. In 2023-24 the Council set working balances of £51.6m.

# Financial sustainability (2 of 4)

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

The 2021-22 budget included £16.9m of savings schemes to be delivered to achieve a balanced budget of which 79% were achieved in year. In 2022-23 the Council identified £16.7m of savings in year. Outturn shows it achieved £13.58m with £0.59m reprofiled to 2023-24 and the remaining savings identified as undeliverable.

In March 2023, the Council identified £25.9m of savings it needed to make in 2023-24. It also identified a budget gap of £56.8m over the following three years. By November 2023, 81% of its savings (£21.91m) were either on target to be achieved in-year or achieved.

Savings are identified over the period of the MTFS, but the focus is the in-year delivery. For example, in March 2023 the Council had identified £28.50m of new savings by the end of 2026-27 of which £15.25m were in 2023-24. It also identified £17.47m of existing planned savings by end of 2024-25.

Work is underway to identify additional pressures, possible efficiencies and other savings plans through a zero-based budget exercise for 2024-25. This will require a high level of ongoing monitoring. Currently there is a shortfall in savings identified and the budget gap and this remains a key focus for financial planning.

For 2022-23 the Council had a bottom-up approach to saving proposals with directorate savings and cross-directorate saving proposals included in the budget approved by Full Council. Saving proposals focussed on reviewing service models, demand prevention, staffing and contracts. Finance use the July MTFS review to set directorates 4-year savings and efficiency targets to develop over summer. Each line is rated for deliverability i.e. need for a consultation and by community impact linked to equality impact assessment and impact on performance. A longlist is then created for the Executive Director to discuss with their management team with finance and other corporate services providing challenge. These are discussed with the Cabinet Portfolio holder and then with a series of member led savings sessions chaired by the Cabinet Member for Finance. The revised list goes to informal Cabinet for discussion who agreed a shortlist.

In 2022-23 the savings shortlist went to the budget working group in January. For 2023-24, the budget working group now meets in November to provide enhanced scrutiny to the process. The long-list of savings remains in place and is worked on by officers so some move to the deliverable list.

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

The Council had a three-year MTFP for 2022-23. This was reviewed in July 2022 following the change of administration and now includes a fourth year to reflect the election cycle. The plan does not make a distinction between statutory and discretionary services which we would expect to see in a Council of this size. The Council says this is a deliberate policy given the links between some discretionary services and statutory outcomes such as in children's services, so we do not make an improvement recommendation.

The 2021-22 and 2022-23 budgets included a Westminster community contribution scheme to allow the most expensive properties in the City to voluntarily contribute towards supporting discretionary services focused on youth services, helping rough sleepers and supporting people who are lonely and isolated.

The strategic vision for Westminster is set out in the Fairer Westminster Strategy. It has five themes - Fairer Communities, Fairer Environment, Fairer Economy, Fairer Housing and Fairer Council. In May 2022, the Council experienced a change in political control and the introduction of a Fairer Westminster Commission adding universal free school meals as an in-year pressure in 2022-23 funded by £2.78m of earmarked reserves but built into the 2023-24 base budget. The Council has also set aside £5m in earmarked reserves to fund investment into their net zero programme.

On 17 February 2022, the Cabinet approved the Capital Strategy 2022-23 to 2026-27. The Council has a gross capital programme up to 2035-36 of £2,751m, offset by £1,260m of funding, giving a net budget of £1,491m to be funded via borrowing. The cost of borrowing is built into the revenue implications of this Strategy. MRP was £21m in 2022-23 increasing to £47m by 2027-28. There are clear links in the Capital Strategy to the Council's four pillars. The Council is on a journey to improve carbon impact information in its Capital Strategy to ensure decisions taken on capital investment have a positive impact on the Council's carbon footprint. The Council is developing a carbon assessment toolkit to improve the quality of data available. This will be used to analyse the carbon impact of its Capital Strategy and officers.

The planned HRA capital spend for 2022-23 was £197m with a total of £2,215m planned to be spent over the duration of the 30-year business plan. The 30-year programme increased by £123m from 2021-22. The 5-Year HRA Capital Programme has a total expenditure of £858.11m. This includes £315.14m of investment in existing stock (supporting key priorities around fire safety and climate change) and £516.97m of development investment to deliver up to 800 affordable homes (over this timeframe).

# Financial sustainability (3 of 4)

## 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

In the last three years the Council was underspent on its general fund capital programme. In 2020-21 the Council spent £135m a variance of 20% from an expected spend of £168m. In 2021-22 it spent £187m a variance of 31% from an expected spend of £271m. In 2022-23 the Council expected to spend £301.9m when it set its budget but spent £197.35 a 35% variance. The 2022-23 the general fund capital programme was revised at the 2021-22 outturn from £301.9m to £267m but the Council still had a variance of £69.6m on this revised programme. In 2023-24 the general fund capital programme was agreed as £289.67m. The Quarter 2 Capital Programme forecast position is £106.34m gross expenditure variance. The fleet replacement programme was delayed due to site lease agreements resulting in a slippage of £16.71m to 2023-24. Westminster Community Homes Loans and Temporary Accommodation were both delayed due to legal agreements not completing resulting in a slippage of £9.61m. Church Street acquisitions were delayed resulting in slippage of £3.4m. The Carbon Management Programme focused on spending BEIS grants in 2022-23 and this resulted in a slippage of £3.21m. Access to land, supplies and materials also drove capital programme slippages in 2022-23. We have not raised this as an improvement recommendation given this was impacted still by post Covid-19 pressures but will look at it again in 2023-24.

In 2021-22 the HRA capital outturn was an expenditure variance of £2.8m against a revised budget of £165.2m. In March 2022, the 2022-23 HRA capital budget was approved at £197.51m. Slippage of £4.29m from the 2021-22 outturn was then added but when the capital budgets were revised at period 6, the HRA budget reduced by £8.025m. This resulted in a revised 2022-23 HRA capital budget of £193.78m. The 2022-23 outturn resulted in a variance of £21.9m against this revised budget. Ebury covered most of the proposed re-profiling into 2023-24 (£14.67m). At the end of Quarter 2 in 2023-24, the expenditure forecast for the HRA capital programme is £206.4m. This represents additional capital spend of £20.05m in 2023-24 compared to the original budget of £169.53m.

The Council has a member led Capital Review Group (CRG) who report to the Cabinet.

The CRG terms of reference were updated in May 2022 following the election and because of the Marble Arch Mound review we discuss on the Governance section of this report. Its purpose is to oversee the general fund and HRA capital programmes and ensure they can absorb any unplanned additional costs such as inflationary impacts. In 2023-24 this is still an area for improvement identified by the Audit and Performance Committee on 24 July 2023. We are aware that council spending has been impacted by Covid-19 but need to see the Council improving its capital programme spending in 2023-24.

Budget monitoring at Council level shows revenue spending is well controlled. The outturn for 2022-23 was a net underspend of £2.97m against an approved budget of £185m. This equates to a net underspend of 1.6%. However, monitoring demonstrates the significant pressure in the Council faces from demand for key service areas particularly temporary accommodation. In 2023-24 the Council was projecting an overspend of £21m on Temporary Accommodation but is seeing increased demand beyond that projection combined with a lack of sufficiency in places resulting in increased costs. By period 3 it saw the same number of cases it predicted by year end. DSG is also under pressure from increased demand for special education needs and from demand for short breaks.

## How the body identifies and manages risks to financial resilience, such as unplanned changes in demand and assumptions underlying its plans

The Council does include a discussion on emerging risk facing its MTFP in its budget papers. **It could enhance its financial risk discussion by linking these risks to the Council's Corporate Risk Register (CRR) and this is reflected in the risk management improvement recommendation.**

The Council use scenarios to set out worst, expected and best-case positions so they can mitigate possible future financial risks. The Council does do this in its working papers.

The Council actively manages its budget variances and services try to mitigate pressures. As an example, the outturn for 2022-23 shows that Adult Social continues to face challenges linked to high demand for services and levels of needs. These challenges were managed by maximising efficiencies and lobbying health partners for additional funding. This meant the adult social care financial outturn is an underspend of £0.21m which is 0.3% of the net budget, £54.2m. The financial position is positive because of £2m one-off funding received in-year from the Integrated Care Board and £1m from the Department of Health and Social Care to offset cost pressures and allow additional investment to support the hospital discharge process. The Council also creates reserves to manage future pressures for example it created a Climate Change Reserve of £4.82m on 31 March 2021 and £4.29m on 31 March 2022. This is to support the delivery of the Climate Emergency Action Plan.

# Financial sustainability (4 of 4)

## How the body identifies and manages risks to financial resilience, such as unplanned changes in demand and assumptions underlying its plans

There were significant pressures in general fund housing that impacted during 2022-23 and are continuing in 2023-24. Temporary accommodation outturn variance to budget was £6.8m. The number of households in nightly rated accommodation at the end of 2022-23 increased to 120 from 20 in 2021-22. An average of 2,899 households were housed in temporary accommodation (compared to 2,692 in 2021-22) and the average net unit cost of temporary accommodation increased from £67 per week to over £113 per week. This trend continued into 2023-24.

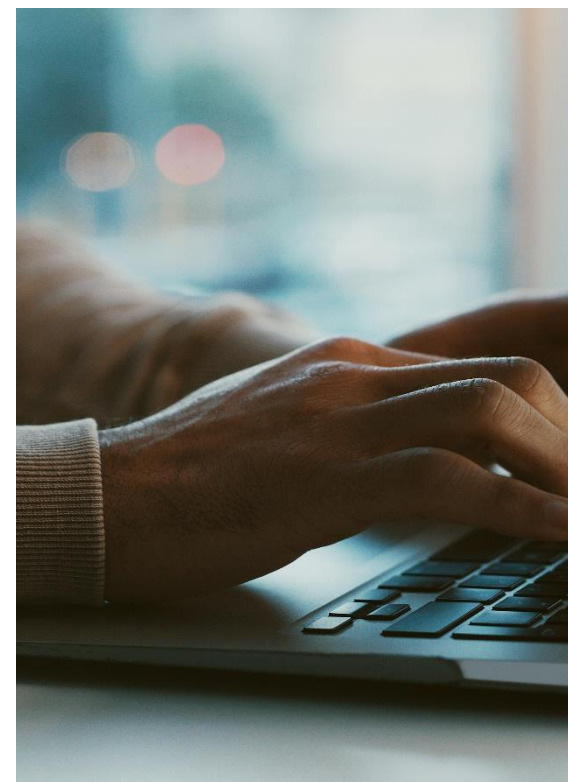
On 31 March 2022 the Council had £57.39m in its general fund balances, it had £19.38m in its HRA balances and schools reserve of £3.84m. The Council has significant earmarked general fund reserves of £666.06m.

## Pension Fund

The Council had net future pension liabilities of £561m on 31 March 2022 (£705m as of 31 March 2021) on an IAS19 basis. The Westminster City Council Pension Fund is revalued every three years by an independent actuary to set future contribution rates. The most recent actuarial revaluation, was in March 2022, assessed the Pension Fund's funding level had increased to 128% from the 99% level in 2019.

The 2022-23 draft accounts identify some large year-on-year variances compared with the previous year. This is mostly due to the £471m reduction in the valuation of the Council's pension fund liabilities as the Pension Fund is now 128% funded.

Both officers and the Pension Fund Committee monitor investment performance closely and refer to independent investment advisers as necessary to ensure the Fund's investments are being managed effectively.



# Governance (1 of 6)



## We considered how the Council:

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

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

Effective risk management enables councils to improve governance, stakeholder confidence and trust; set strategy and plans through informed decision making; evaluate options and deliver programmes, projects, and policy initiatives; prioritise and manage resources, manage performance, resources and assets; and achieve outcomes.

The Council's Risk Management Strategy 2022 was updated in July 2023 following an internal audit of the Council's risk management arrangements. It has a complementary risk guide which helps officers to understand more about risk. The Strategy does not set out risk guidance for the Council's companies which we would expect to see. The Strategy says assurance is annual, but assurance should be included in the Corporate risk register (CRR) for each risk. The Strategy does not include a process for escalating and de-escalating risk, although it is acknowledged that if risk ratings reach a certain score, then they are automatically escalated.

Currently the Strategy and Intelligence Team reviews and updates the risk management strategy and maintains the Council's Corporate Risk Register and escalate top strategic risks to the Executive Leadership Team through Quarterly Performance Reporting. Risk owners and their Directors are responsible for scoring risks, and they are aware that if they reach a certain threshold, they are automatically escalated to the CRR.

The CRR includes risk reference, risk title, description, impact, strategic or operational, risk category, likelihood, score, existing controls, residual and target risk scores, proximity, risk owner, date last updated. The CRR does not include a target risk date or assurances, or direction of travel and does not map risks to corporate objectives. The CRR does not include Council company risks which we would expect to see. Westminster Builds does not have its own risk register which we would expect to see given the size of the company.

The CRR is updated quarterly by all directorates, with significant risks reviewed by senior management and members. An internal audit review of risk management across the Council's departments was undertaken in 2022-23 which identified some improvements to how risks are managed and reported. Potential improvements have been identified which were being reviewed in November 2023 prior to an action plan agreed.

We have made an improvement recommendation in respect of risk management where the Council can continue to review and enhance risk management arrangements in accordance with good practice.

Internal Audit is provided by a shared services team which operates across three London Boroughs (Royal Borough of Kensington and Chelsea, City of Westminster, and London Borough of Hammersmith and Fulham). This service also provides a counter-fraud service. The in-house internal audit team was supplemented by resources from Mazars LLP under a Framework arrangement with the London Borough of Croydon and PwC under a Framework arrangement with the London Borough of Barnet.

The Strategic Internal Audit Plan (2021-2026) sets out the medium-term direction of the Internal Audit Service, this was updated in 2022-23. The Service also agreed the Audit Charter in 2021 and again in 2022.

# Governance (2 of 6)

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

In 2021-22 and 2022-23 the Internal Audit Service undertook a self-assessment to verify PSIAS compliance which has identified general compliance with the Standards. In 2021-22 some improvements were identified in reporting and audit planning. A peer review of compliance was deferred from 2022-23 and took place in 2023-24.

The Internal Audit annual report for 2021-22 identified reasonable assurance concerning the systems of internal control in place 86% of the 32 audits undertaken received a positive (substantial or satisfactory) assurance opinion (95% in 2020-21). The Internal Audit team followed-up 69 recommendations in 2021-22 with 62% of these fully implemented and 38% partly implemented.

The Annual Governance Statement (AGS) for 2021-22 was included in the Statement of Accounts. It identified three limited assurance audits were issued in 2021-22: Food Safety; Children's Services Direct Payments; and Sayers Croft Outdoor Activity Centre. Most of the actions required in respect of the Children's Services Direct Payments and Sayers Croft Outdoor Activity Centre were addressed before the end of the financial year. Further action was required in respect of the Food Safety Service which required an additional follow-up in 2022-23.

An internal audit on housing complaints found they are not fully integrated with corporate systems and reporting. The service has undergone changes in structure, roles and responsibilities since the original audit was undertaken.

In February 2022, Audit and Performance Committee received the 2022-23 Audit Plan and the revised 5-year strategic plan. In September 2022, Full Council agreed to appoint an Independent Person on the Audit and Performance Committee to strengthen the Committee. This was operational by July 2023.

In July 2023, the Audit and Performance Committee were advised of reasonable assurance for internal audit in 2022-23 with 24 audits were completed, three substantial, 18 satisfactory and three limited assurance. Fifty-two recommendations were followed up in 2022-23 and 69% of these were fully implemented and 31% partly implemented.

In November 2022 Internal Audit reported on a limited assurance audit on Children's Placements: Operational and Financial Procedures which was included in the plan for 2021-22. This limited audit assurance related to historic over payments (dating back to 2017) due to the misalignment of the ArtDB database and Mosaic case management system. A service and finance led review was completed in 2020-21. In December 2020, the value of identified over payments was £0.51m. By November 2021, this reduced to £0.28m and by June 2022 the outstanding over payment figure was £0.20m. Audits of St Mary Magdalene Primary and Queens Park Primary both received limited assurance along with an audit on continuing healthcare.

The Corporate Anti-Fraud Service (CAFS) undertake proactive and investigatory work. In 2021-22 there were 151 proven cases (110 in 2020-21) assigned a value of £0.82m. There was a significant increase in tenancy fraud, disabled parking fraud and fraud relating to business grants. In 2022-23 CAFS investigated 451 cases, including 189 new referrals. Of these, 246 investigations were concluded during the year. The team identified 147 positive outcomes with a value of £0.78m. Tenancy fraud significantly increased again in 2022-23 from 12 cases in 2020-21 to 31 cases in 2022-23.

We note that the fraud cases do not include procurement. However, the procurement team does consider the risk of fraud in their work and has got arrangements in place with suppliers relating to collusion and anti-money laundering.

The Council's Anti-Fraud and Corruption Strategy 2020-23 sets out the Council's policy on fraud and corruption. This Strategy aligns to the national strategy published by the Local Government Association (LGA). It forms part of the Council's counter fraud framework, a collection of interrelated policies and procedures including the Code of Conduct, Financial Regulations and Whistle Blowing Policy. The fraud risk register identifies possible frauds to which the participating authorities are exposed. Since April 2021, the Corporate Anti-Fraud Service received three fraud referrals via the Whistle Blowing Policy in 2021-22 and one in 2022-23. In 2021-22 two were closed following a fact-finding investigation that could not corroborate the content of the allegation, while the third was investigated. The 2022-23 case was closed after fact-finding.

# Governance (3 of 6)

## Whistleblowing considerations received in 2021-22

In 2021-22 we received a whistleblowing allegation direct to us in respect of certain capital procurement arrangements. This considered whether the capital procurement undertaken had complied with the Council's procurement arrangements, whether the services procured were fit for purpose and been received and whether, the subsequent investigation commissioned by the Council was fit for purpose. On receipt of concerns and allegations, the Director of Corporate Services commissioned an independent investigation. This was undertaken by a previous Chief Internal Auditor, independent of the Council and was supported by the Council's internal audit and counter-fraud team, and HR. The internal audit team concluded no evidence of fraud. However, they did identify a series of control improvements. This was a small capital procurement team, sitting out with the Council's main procurement functions. There has been a subsequent restructuring of that team with the team members involved no longer employed by the Council.

In reviewing the work undertaken by internal audit, the independent review, and the subsequent disciplinary investigations, we noted areas where in the future Council arrangements could be improved. In particular:

- Ensuring the Council's monitoring officer was informed on a timely basis. The Council's monitoring officer, in this instance, given the subject area, would have been better placed to independently commission a review.
- A more rigorous investigation into the potential fraud allegations, using suitable forensic tools and analysis, including email analysis.
- The investigation first focused on the HR elements, and the wider disciplinary consideration. The first point of consideration, should have been to consider and investigate potential fraud and/or misappropriation.

**We have raised an improvement recommendation on page 22.**



# Governance (4 of 6)

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

In both 2021-22 and 2022-23, budget development was collaborative. It started in July once the outturn was known. Executive Leadership Team (ELT) members were given savings targets. They then worked with their directorate management teams over summer to develop proposals that are fed into ELT collectively in October. In this meeting proposals were refined and discussed with Portfolio Members before they are scrutinised by the Cabinet Member for Finance.

An internal refresh of the MTFP is discussed between budget holders and finance, then in November, each Cabinet portfolio member (Chair of the relevant Committee) has a challenge session. As well as the portfolio holder, these meetings include the Lead Member for Finance, the s151 officer (or deputy), the Chair of the Audit Committee and the Chief Executive.

These sessions provide an opportunity for challenge and review of both the budget, savings, timelines, political considerations, dependencies, investment requirements and RAG ratings. As portfolios align to the Directorate structure, there is a direct correlation between the portfolio holder's remit and the budget.

These then go to informal Cabinet and then to the formal Cabinet meeting. They also go to an all-party budget scrutiny. Informal (non-public) Cabinet meetings are also held during the budget setting process to discuss emerging issues and any inputs from the Budget Scrutiny Task Group (BSTG). BSTG met on 13 February 2023. Its membership consists of four Majority Group representatives and three Opposition Group representatives. They scrutinised the draft budget in three sessions.

The Council has introduced zero-based budgeting for 2024-25 budget setting. The budget setting processes has a good level of ownership and involvement. While there is no formal public budget consultation the Council does conduct an annual residents survey that informs its service and budget priorities.

## How the body ensures effective processes and systems are in place to ensure budgetary control

Individual budget holders have clear roles and responsibilities. Every month, budget holders are provided with their budget monitor report. This gives monthly figures and expected outturn. Variances are followed up in meetings with finance. This monitoring provides enough information to budget holders to enable them to act promptly to manage their budgets. ELT meets weekly and the Deputy Director of Finance also attends these meetings to present budget position reports. ELT receives a monthly budget monitoring report following the budget holder conversations.

## How the body ensures effective processes and systems are in place to ensure budgetary control

Variances in budgets are explained well for members. Reasons for variances are clear such as the rising demand for temporary accommodation and reduced income.

The governance around the capital programme is now led by the Capital Review Group (CRG). The CRG reviews the strategic direction of the programme and ensures outcomes are aligned with the Council's strategic priorities.

Quarterly budget reporting is at a level of detail that enables the Audit and Performance Committee to make effective decisions, i.e. not overly complex but not too simplistic either. The Cabinet saw a report on the MTFP in July 2022 following the May elections to update the new Cabinet on the medium-term budget assumptions approved at Full Council in March 2022 and extend the MTFP for a further two years to 2026-27 to coincide with term of the new administration.

The Council reported as required on its Investment Strategy and Treasury Management in 2021-22 and in 2022-23. Reporting includes the required Prudential indicators. During 2022-23, the Council maintained an under-borrowed position of £793m.

## How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

The Council undertakes an annual face-to-face residents survey to provide it with a robust and representative insights of residents' views. The survey findings and the intelligence from newly formed resident panels is used to inform the Council's Strategy, budget setting process and medium-term financial plan.

Following local elections in May 2022 the administration changed and the membership of the Audit and Performance Committee changed. It only has four elected members which is small. From July 2023 it also now has an independent person.

# Governance (5 of 6)

## Marble Arch project

The Marble Arch project was commissioned in 2020-21 and was due to cost £2m. The Council incurred a spend of £6.56m in 2021-22 and it closed in January 2022. This is poor value for money; however, the Council has learnt lessons, and we are not making a recommendation in this area as improvements are implemented.

The project governance and decision-making took place using Covid-19 emergency powers, allowing the Council to make decisions, in an unusual situation. The project opened before it was completed because of insufficient rigour in project management according to the internal review. It also cost over three times the agreed budget. An internal review commenced in August 2021 and was published and considered by Members in October 2021. The review identified recommendations for the Council to take forward, learning lessons from the project which it has since implemented.

In February 2022, the Chief Executive presented an update report to the Scrutiny Commission setting out the response to the original recommendations and two new recommendations arising from a meeting of the Business and Children's Policy and Scrutiny Committee on 27 October 2021. The Council has made improvements by:

- restructuring the Corporate Portfolio Management Office (CPMO);
- revising the Capital Review Group's terms of reference;
- creating and appointing to the role of Deputy Chief Executive; and
- updating the member/officer protocol.

By February 2022, the CPMO function was restructured providing a business partner for each Executive Director's area of responsibility, and a corporate partner to oversee cross-cutting projects and programmes. Business partners perform a challenge and assurance role and report to the Council's Change Board. ELT all attend the Change Board which meets monthly. The terms of reference of the Capital Review Group were strengthened in early 2022 and revised in May 2022 to align with the new administration. A Deputy Chief Executive is in post providing enhanced officer level oversight and additional leadership. She is responsible for the Oxford Street Programme. A process is in place to review, record and authorise the use of highways contracts by third parties (either internal or external). This system went live in March 2022. The member / officer protocol was updated by October 2022.

## Wholly owned companies

In July 2021, the Cabinet received a report on Wholly Owned Company Governance that recommended the establishment of a Shareholder Committee. This Committee, chaired by the Leader of the Council, was established to provide oversight of the Council's subsidiaries and companies. It makes reports and recommendations to the Cabinet. It first met in December 2021.

Group accounts provide an overview of organisations subject to Council control. In 2022-23 these were:

- Westminster Community Homes Limited – a housing development vehicle.
- Westco Trading Limited – offering council services to public sector clients.
- Westminster Housing Investments Group – delivery of affordable housing.
- Paddington Recreation Ground Charity – maintains the park as open space in perpetuity.

Westminster Housing Investments Limited and Westminster Housing Developments Limited form Westminster Builds. In March 2023, the Westminster Builds business plan was taken to the Shareholder Committee. At the March 2023, Shareholder Committee, officers were asked questions regarding the corporate structure of Westminster Builds and whether it was subject to adequate scrutiny. Westminster Builds comprises two private limited companies with officers as directors. The Capital Budget proposals for Westminster Builds projects over the next five years is £215.08m funded by the Growth, Planning and Housing General Fund via a loan to Westminster Builds. The loan financing to Westminster Builds for 2023-24 was forecast as £31.87m for Ebury Phase 2, Luxborough, 300 Harrow Road and Westmead. The Deputy S151 who is a Board Director for Westminster Builds identified it had no formal risk management arrangements in place in November 2023.

**The absence of a risk register, in a formal manner, for Westminster Builds has been recognised within the risk management improvement recommendation.**

Westminster Community Homes took its business plan for 2023-24 to the March Shareholder Committee. It has a new Chief Executive who was also seeking to appoint external board members to fill identified skills gaps. It was previously operating a five-person Board all nominated by the Council.

# Governance (6 of 6)

## How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour

Codes of Conduct for members and officers reinforce a public service ethos and high standards of behaviour. These are supported by more detailed guidance such as, Anti-Fraud, Bribery and Corruption strategies, and the Procurement Code.

Financial regulations are meant to be reviewed annually but the ones in the constitution are dated October 2018. These also make no mention of the Council's businesses. **We make an improvement recommendation to update the Council's financial regulations.**

The Council requires all employees to disclose any interests which may conflict with their public duty. It also requires employees in specified designated posts to complete a declarations of interest form on taking up the post and on changes in personal circumstances. ELT members maintain a register of pecuniary and personal interests for their area of responsibility. The onus is on employees to ensure their registration details are accurate and updated.

## Pension Fund

A report is presented at each meeting of the Pension Fund Committee and Pension Board setting out the risks faced by the Fund. The accounts set out the risks, the mitigating actions and whether to treat or tolerate the risk. **We identify that the two risk registers need assurances and target risk scores adding and this is reflected in our risk management improvement recommendation.**

The Fund's Investment Advisor regularly attends meetings and provides guidance around appointments of investment managers.

The Pension Fund published the required governance compliance statement in 2022-23. In late 2022, the Pension Fund applied to the Financial Reporting Council to become a signatory to the UK Stewardship Code which aims to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries. The application was successful, and the Fund is now a signatory to the Code, an accolade held by only a handful of LGPS Funds. The City of Westminster Pension Fund report that as in January 2023, the value of investments to Russia or Ukraine within the Pension Fund's asset classes is valued at zero.



# Improvement recommendation 1



## Governance

### Improvement recommendation 1

The Council needs to review its overall approach to risk management. Whilst it is recognised that risk is considered at key touch points, framed by a risk management strategy the approach to risk is not always consistent and coherently visible, including arrangements to escalate and de-escalate risks between Corporate and Service risk registers, improved reporting including direction of travel and how risk is then actively used to inform decision making. Improvements, can then also flow through to project risk and the need for risk registers at the wholly owned Council subsidiaries. Currently the Council does not have a dedicated risk management resource, and we believe this should be considered, to support future risk improvements.

#### Audit year

2021-22 and 2022-23

#### Why/impact

Effective risk management enables councils to improve governance, stakeholder confidence and trust; set strategy and plans through informed decision making; evaluate options and deliver programmes, projects, and policy initiatives; prioritise and manage resources, manage performance, resources and assets; and achieve outcomes.

#### Auditor judgement

The Council's arrangements for risk management could be further improved and strengthened.

#### Summary findings

Management Strategy is up to date, but it says assurance is annual, and assurance should be included in the Corporate risk register (CRR) for each risk. The Strategy does not include a process for escalating and de-escalating risk, although it is acknowledged that there is automatic escalation if risk scores reach a certain level. The CRR does not include a target risk date or assurances, or direction of travel. The CRR includes no Council company risks which we would expect to see. Westminster Builds does not have its own risk register which it should have given the size of the company. Some risk improvement to the pension fund risk arrangements are needed both risk registers need to add assurances and target risk scores.

#### Management comments

*The Council has reviewed and refined its overall risk management approach and is undergoing a further review process. These recommendations for further improvement will be considered as part of that.*

# Improvement recommendation 2



## Governance

### Improvement recommendation 1

In future instances of allegations of fraud, the Council have an opportunity to strengthen its arrangements, in terms of the forensic investigation of the nature and how investigations are commissioned.

#### Audit year

2021-22

#### Why/impact

Opportunity to be more forensic in the approach to fraud allegations, timely, to evidence, whether further investigations or referral via the Monitoring Officer is required.

#### Auditor judgement

The Council's arrangements for counter-fraud forensic investigations could be strengthened.

#### Summary findings

Whilst an investigation was concluded, the capital procurement team restructured and disciplinary matters followed up, leading to improved future controls the rigour of the review, for potential fraud could have been strengthened and the investigation been led by the Monitoring Officer.

#### Management comments

*The Council will consider improvements in the Tri-borough Audit and Fraud function to strengthen these arrangements with the Council's Monitoring Officer.*

# Improvement recommendation 3



## Governance

### Improvement recommendation 2

The Council needs to update its financial regulations and include reference to its businesses., and group structure.

#### Audit year

2021-22 and 2022-23

#### Why/impact

The Council's financial regulations need to be re-reviewed and updated as appropriate to ensure they remain fit for purpose.

#### Auditor judgement

Financial regulations, as set out in the constitution, were last updated according to the document in October 2018. Through discussion, and review, we note these were reviewed, in 2021 but updates not made.

#### Summary findings

Financial regulations are meant to be reviewed annually but the ones in the constitution are dated October 2018. These also make no mention of the Council's businesses.

#### Management comments

*The Council will implement its review of the Financial Regulations in 2024/25. They were reviewed in 2021 and were considered to be sound, but changes were not formally adopted.*

# Improving economy, efficiency and effectiveness (1 of 4)



## We considered how the Council:

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

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

The strategic vision for Westminster is set out in the Fairer Westminster Strategy. It has five themes - Fairer Communities, Fairer Environment, Fairer Economy, Fairer Housing and Fairer Council. The Strategy includes plans for tackling inequalities, transitioning to a net zero carbon city, supporting people to live well, building affordable housing, creating high-quality public spaces, and ensuring Westminster's economy thrives and that residents benefit from it.

In 2021-22 performance reports include headline achievements, insight and pressures, and a discussion on risk and KPIs. They identify remedial action taken to address under-performance. This provides an update on how the Council are progressing against its KPIs. However, there is no evidence of benchmarking in 2021-22 or in 2022-23 with nearest neighbours which we would expect to see reported. This continued into 2023-24.

The Annual Governance Statement 2022-23 identified the need to review the format and usefulness of performance reporting and how it aligns with the Fairer Westminster Strategy. In March 2023, the Cabinet approved the Fairer Westminster Delivery Plan for 2023-24 which includes performance measures for all five key strategic themes. In 2023-24 the Council reset its outcomes following the change of Administration in May 2022.

Quarterly performance reports go to the Audit and Performance Committee which in our view does not give the Cabinet the assurance it needs against its own delivery plan. Regular reporting also goes to the ELT led Innovation and Change Board.

In July 2023, the Audit and Performance Committee saw an end of year performance report. It showed 84% of KPIs achieved their target in 2022-23 compared with 76% in 2021-22. It identified housing as being the service most in need of improvement.

In 2022-23 the Council only replied to 47% of Stage 2 complaints in 20 working days against a target of 75%. This was a deterioration against 2021-22 performance of 55% on time. The key driver for this performance was complaints about the housing service (323 of the 421 Stage 2 complaints received). Only 38% of housing related complaints were responded to within target.

In September 2023, the Risk and Performance Board were told the Housing Director was working to improve the housing performance management framework, data quality and customer measures. The report also identified inconsistency in the view of performance across directorates with some directorates not providing corporate data that enabled outcomes to be tracked.

**We identify improvements that could be made in the Council's performance management arrangements including the performance benchmarking. We make an improvement recommendation.**

The Council could benefit from having a Local Government Association (LGA) Corporate Peer Challenge to learn from other Councils especially on performance, but it has not had one. The Local Government Association (LGA) is the national membership body for local authorities working on behalf of member councils to support, promote and improve local government. It recommends councils have a Corporate Peer Challenge (CPC) every five years.

Ofsted carried out two inspections in 2022-23. In June 2022, a focused visit carried out by Ofsted reported children at risk of extra-familial harm receive excellent support and services in Westminster. Ofsted awarded a good to an inspection of Westminster Adult Education Service.

# Improving economy, efficiency and effectiveness (2 of 4) - proposed

## How financial and performance information has been used to assess performance to identify areas for improvement (continued)

In 2021-22 and 2022-23 the housing service needed improvement. The Council's HRA Strategic Asset Management Plan for 2021-22 and 2022-23 was dated 2013. The Council's housing strategy, **which focuses on supply of social housing**, was dated 2015. While no longer a statutory requirement, we would note that production of these strategies are aligned to best practice standards. In 2021-22 and 2022-23 the Council achieved over 99% compliance with the decent homes standards.

In April 2023 the Council put in place a Corporate Housing Improvement Programme in response to the Future Westminster Housing commission, findings from the housing ombudsman's and the lived experience of our residents. This is focused on ensuring the council meets its responsibilities given the significant regulatory changes and improving the service and experience for residents. This includes a focus on building safety, complaints, repairs and our work with the most vulnerable. The Improvement Programme has two governance boards in place, including an ELT Improvement Board.

The initial focus included a deep dive into compliance areas including Gas, Electricity, Fire, Water Safety, Asbestos, and Lift management. Survey work was also underway in December 2023 to survey all communal fire safety doors and to carry out flat door checks. In 2022, the Council procured a one-year stock condition survey that delivered 720 internal surveys and 632 external surveys, as part of a rolling stock programme. This has since been supplemented by both procurement to a new condition survey provider and archetype condition surveys. The council has also commissioned Ridge & Partners LLP to build and define a new Strategic Asset Management Plan (SAMP).

Since November 2022, mould, and damp reporting in the social housing properties the Council manages increased by 82 cases per month - an increase of 72% from 2021-22. The Council introduced an interactive online reporting form for residents to detail the issues and upload live images to improve triage and prioritisation of cases.

On 3 April 2023, the Housing Ombudsman issued a press statement. It found severe maladministration in the Council after it failed to tackle damp and mould in a resident's home for over two years, despite knowing that there was a four-month-old living there when the problem was first reported. The Council learnt lessons from this and put in place new procedures for supporting residents and identifying vulnerability and recording it in its case management system. It is also improving its vulnerability training for staff and contractors. In October 2023, the Audit and Performance Committee saw an annual performance report from the Housing Ombudsman. It showed increasing levels of maladministration from 2021-22 and 75% of all the Council's maladministration related to building safety compared with 52% of other local authorities. Between 2021-22 to 2022-23 the maladministration rate increased from 29% to 61%. The Council used the 2022-23 Annual Complaints Review to learn from complaints.

In 2023-24 the Housing Health and Safety (HHSRS) Rating System surveys started in the Council's sheltered blocks. This included focusing on the most vulnerable on the Council's estates ensuring capture of information around health and safety repair issues in tenants' flats. This is continuing to roll out across the Council's sheltered schemes.

During 2022-23, the Corporate Complaints Team responded to 80% of stage 2 complaints on target, the housing management service received 322 complaints and only responded to 32% of these on time and only 26% of their stage 2 complaints were on target. Complaints performance needs continued improvement including timeliness, quality of responses and the experience for residents. Timeliness for April – October 2023 is at 53% and 47% at stage 1 and stage 2, respectively. Repairs related issues represented 78% of all complaints between October 2022 and October 2023.

**We identify a significant weakness in the Council's housing services and make a key recommendation on page 9.**



# Improving economy, efficiency and effectiveness (3 of 4)

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

Prior to Covid-19, the Food Safety Service was put under performance review by the Food Standards Agency due to the backlog of Category D cases. At the start of the 2020-21 the service had 487 new premises with visits outstanding. By June 2021, an additional 651 premises had registered increasing the number of new registered premises due an initial visit to 1,138, by the end of 2021-22 this increased to 1,278. The backlog for an initial 4-week visit dated to 2017. Prior to Covid-19, the Service was put under performance review due to the backlog of Category D cases.

Internal Audit reviewed the service in 2020-21 and reported limited assurance in June 2021. It found the service did not have a formal strategy in place detailing the priorities of the Food Standards Service. The audit was followed up in March 2022 and identified a lack of capacity in the service. In July 2022, an agreement was made by the Director to outsource the remainder of the Category D inspections. During contract monitoring misconduct by an inspector was identified and they were removed, and an investigation held. The contract ended in March 2023 and was not extended. The backlog of Category D inspections was then 830 businesses. To address the remaining 830 Category D inspections, the service split these over an 18-month period starting in July 2023. Since summer 2023, the food team completed 193 inspections leaving 637 remaining in the backlog.

### We identify an improvement recommendation in respect of food safety and the need to continue to complete the backlog.

In 2022-23 there were 28 upheld complaints to the Local Government and Social Care Ombudsman. In the annual letter dated July 2023 the Ombudsman identified the Council had acted on recommendations made in 24 cases during the year. However, in over a fifth of these cases, the recommendations were not completed within the agreed timescales. The Council often took significantly longer to complete service improvement recommendations; in one case it took seven months instead of the agreed eight weeks and in another it took six months instead of the agreed three. In three of the five cases where lateness was an issue related to housing complaints. **We include the need for more timely complaint resolution in our key recommendation on housing improvement.**

## Where the body commissions or procures services, how the body assesses whether it is realising the expected benefits

The Council spends over £550m each year on third party services and contracts. We identify some good practice relating to procurement. All projects over £100k must be approved by the Commercial Gateway Review Board (CGRB). This board has a finance and a legal officer, and procurement staff. All potential procurements must be accompanied by a detailed written strategy setting out the VFM, ethical procurement considerations, planned performance monitoring, and risk management arrangements. The Council has a Responsible Procurement and Commissioning (RPC) Strategy 2022-2026 launched in February 2022 which followed consultation workshops with around 100 suppliers, it was updated post-election to align with 'Fairer Westminster'. This is complemented by an Ethical Procurement Policy, Supplier Charter and Westminster's first Modern Slavery Statement.

The procurement service is structured around four specialisms: business partners who provide commercial support to business areas and develop robust forward pipelines; tendering activity for high value and more complex procurements; contract and supplier management providing dedicated support for contract managers and monitoring supply chain risk; policy, performance and systems providing responsible procurement expertise, systems, data, policies, governance, and monitoring effectiveness of the procurement policy.

In 2022-23 pre-procurement engagement with suppliers increased to ensure that an understanding of the supply market conditions informs procurements. Each Directorate holds regular Procurement Boards, where Executive Directors and their leadership teams oversee procurement activity in their areas, including pipelines of work and policy compliance. An "E-Learning" module for contract managers was launched, including a test, to promote a consistent understanding of good contract management practice. A new cloud-based e-sourcing procurement and contract management system was procured.

The commercial pipeline has over 75 procurement projects over the next seven years, with a value of £1bn. Some of the largest upcoming procurements include Church Street Site A Joint Venture Partner (The total capex for Site A is £364m of which the Joint Venture development partner would be funding £170m), Ebury Bridge Phase 2 Main Contractor (circa £300m), Other upcoming procurements with GLA funding implications include: Westmead (circa £32m project cost, circa £4m GLA funding) and Carlton Dene (linked to Adult Services).

# Improving economy, efficiency and effectiveness (4 of 4)

## Where the body commissions or procures services, how the body assesses whether it is realising the expected benefits (continued)

Public procurement regulations changed in January 2022 with limits set at £213,477 for supplies and services and £5,336,937 for works. The Council's procurement code was last updated in March 2021. The Procurement Code has a link to the latest thresholds, as does the Procurement Hub internal webpages where the Code sits.

In our AAR 2020-21 we recommended the contract register was updated to include contract owners. The Annual Governance Statement for 2022-23 also identified the need to ensure the completeness of the contracts register to ensure it contains details of all contracts over £0.1m and all contract owners. In December 2023, the public contracts register is not updated and does not include contract owners. We note that the internal contracts register in January 2024 does include contract owners.

The Council does not have a system to monitor contract KPIs or SLAs, instead procurement is reliant on the views of contract managers. Independent assurance is required, and the Council is looking for a system to improve real-time contract management performance.

The Council's Procurement Code requires that contracts valued above £0.1m are awarded via a competitive process. Occasionally, business risks or urgency mean that this is not possible, and a contract must be awarded directly to a supplier without competition. In these cases, a 'waiver' from the requirements of the Procurement Code must be requested, which requires approval from the Executive Director of the requesting Directorate, and the Director of Commercial Partnerships. For the 2022 report, the Council had 88 waivers of this type, an average of 7 per month. This represents an increase compared to the monthly average of 4 per month during the previous period. In the 2023 report the Council identified 70 to end November.

In 2022, 74 non-compliant POs were raised, compared with 69 by November 2023. This represents an increase compared to the monthly average of 3 per month during the previous period. The 74 includes 14 POs relating to complex housing needs, which were raised in July without supporting contracts in place. This was due to delays in the Rough Sleeping Initiative funding announcement, meaning contractual arrangements could not be made in time.

The main reasons for non-compliance include POs raised against contracts which have expired; POs raised when there is no contract in the system; or the total value of the PO exceeds the total contract value. Non-compliant POs are investigated with the relevant service area, with the aim of putting a contract (or contract variation) in place as soon as possible.

In the 12 months preceding the 2023 report, inflation impacts on existing contract costs (particularly in the construction sector) have led to some POs being raised above the total value of the contract prior to a contract variation having been completed.

The Procurement Team is implementing a new invoicing process "eStore" on a phased basis from December 2023, which will make it more difficult to raise a PO without a supporting contract. The process includes adding a contract reference for POs.

The Council extended its Waste Contract with Veolia after seeking legal advice and issuing a VEAT notice in August that was live for a month in August 2023.

The implementation of the new buying team from January 2024 has increased visibility and transparency of procurement activity between £25k and £100k guaranteeing compliance with our internal procurement code as well as ensuring we achieve value for money on each opportunity. Previously this was left to officers within Departments with no review or audit from a procurement perspective. The team supports council officers to understand the procurement processes and encourage them to go to market rather than Direct Award to the incumbent or a preferred supplier. A key part of the new team's role is to review and approve POs between £25k - £100k, the aim of this is to ensure compliance with the procurement code for all spend in this threshold.

## We identify two areas where the Council needs to improve its procurement and contract management arrangements and make an improvement recommendation.

### Pension Fund

During 2021-22, the administration costs increased by 65% to £1.62m, largely because the pension administration moved from Surrey County Council to Hampshire County Council, which incurred a large one-off fee. Governance and oversight costs in 2021-22 remained in line with 2020-21. Investment management costs increased by 30% in 2021-22 to £11.3m. The market value of investments decreased by £100m to £1,859m over the quarter to 31 March 2022.

In June 2022, the Council's Pension Committee received a summary of the performance of Hampshire Pension Services (HPS) with KPIs for the period February 2022 to April 2022. They reported 100% compliance with the agreed KPIs. They repeated this performance to October 2022. In October 2022, the performance report identified a cyber security issue at Hampshire County Council meant the member portal for the pension was taken offline and vulnerability tested, and assurance was in place. This meant members living outside of Europe were blocked from the system and alternative arrangements made with them. The report also identified work on counter-fraud. The funds data was uploaded for the Biannual National Fraud Initiative (NFI) and are still being matched.

# Improvement recommendation 4



## Improving economy, efficiency and effectiveness

### Improvement recommendation 2

The Council should look to further improve performance management. Improving the link between the corporate performance management framework and the service performance, to outcomes expected and then actual in-year performance. Linked to this, performance measures should be set, which can be suitably used to benchmark performance including formally reviewing performance compared to comparable London boroughs. This will support the Council's continued drive for continuous improvement.

**Audit Year** 2021-22 and 2022-23

**Why/Impact** The Council can look to improve its arrangements for performance management and ensure it has a golden thread to the corporate plan is in place and performance is reported alongside nearest neighbours where possible. It could also act further to identify and address poorly performing services, and those which are high cost but low quality.

**Auditor judgement** The Council's arrangements for performance management could be strengthened in line with recommended practices.

**Summary findings** In 2021-22 and 2022-23 the Council did not include benchmarking with its nearest neighbours in its performance reports which we would expect to see and could have had clearer links between stated outcomes and corporate objectives in the performance reporting.

**Management comments** *The Council has put in place a formal Performance Board meeting regularly in the last 12 months and further enhancements to improve performance management will be considered including benchmarking that currently is only done on a targeted basis. The Council has already arranged for an LGA Corporate Peer Challenge to happen in 2024.*

# Improvement recommendation 5



## Improving economy, efficiency and effectiveness

### Improvement recommendation 3

The Council needs to ensure it has sufficient resource to deliver minimum service standards and reduce the back log on food safety inspections. We have raised this as an improvement recommendation in recognition of all the work the Council has undertaken to date, including addressing the internal audit action plan recommendations. The backlog is reducing but acknowledged still in existence.

#### Audit Year

2021-22 and 2022-23

#### Why/Impact

The Council has a statutory responsibility to meet minimum service standards and we have identified a gap in these arrangements in both years relating to food safety. The Council has a legal responsibility for enforcing food hygiene law and taking action to prosecute if businesses are failing to comply with hygiene requirements.

#### Auditor judgement

The Council's arrangements for food safety can continue to be strengthened.

#### Summary findings

We have identified a failure to meet minimum service standards in food safety in 2021-22 and in 2022-23 that continued into 2023-24. Prior to Covid-19, the Food Safety Service was put under performance review due to the backlog of Category D cases. At the start of the 2020-21 the service had 487 new premises with visits outstanding. By June 2021, an additional 651 premises had registered increasing the number of new registered premises due an initial visit to 1,138, by the end of 2021-22 this increased to 1,278. The backlog for an initial 4-week visit dated to 2017. Prior to Covid-19, the Service was put under performance review due to the backlog of Category D cases.

Internal audit reviewed the service in 2020-21 and reported limited assurance in June 2021. It found the service did not have a formal strategy in place detailing the priorities of the Food Standards Service. The audit was followed up in March 2022 and identified a lack of capacity in the service. In July 2022, an agreement was made by the Director to outsource the remainder of the Category D inspections. During contract monitoring misconduct by an inspector was identified and they were removed, and an investigation held. The contract ended in March 2023 and was not extended. The backlog of Category D inspections was then 830 businesses. To address the remaining 830 Category D inspections, the service will split these over an 18-month period starting in July 2023. Since summer 2023, the food team completed 193 inspections leaving 637 remaining in the backlog. Internal audit have closed their action plan as implemented, with a follow up planned for March 2024, which we will follow up on, in our future VFM work programme.

#### Management comments

The Food Safety service is on track to achieve the inspection programme in its high-risk premises for this financial year. Due to the reallocation of resources and difficulties in the hospitality sector during the pandemic there is a backlog of food safety inspections in our lowest risk premises (rated D&E) across the Borough. Our Covid recovery plan focused on our highest risk premises alongside new premises, in accordance with the Food Standards Agency Covid recovery plan. We are now in a position to deliver against a roadmap to ensure that the backlog of inspections is cleared before October 2024. Additional funding streams have been identified to resource the addition of Agency Staff and overtime for existing staff to complete these low-risk inspections.

# Improvement recommendation 6



Improving economy, efficiency and effectiveness

## Improvement recommendation 4

The Council needs to improve its procurement and contract management arrangement by;

- reducing its waivers and non-compliant POs.
- implementing a system to monitor real-time contract performance of its key contract.

### Audit year

2022-23

### Why/impact

The Council has an important responsibility to ensure that procurement and contract management arrangements maximise the use of public finances, that value for money is achieved, and procurement delivers strategic priorities.

### Auditor judgement

The Council's arrangements for procurement and contract management could be further enhanced.

### Summary findings

In 2022-23 the Council experienced an increased use of waivers and non-compliant POs compared with 2021-22. The Council does not have a system to monitor contract KPIs or SLAs, instead procurement is reliant on the views of contract managers.

### Management comments

The average monthly numbers of waivers and non-compliant POs have increased in 2021-2 and 2022-3, when compared to the previous period (April – Oct 2021). However, because we only began measuring these KPIs in April 2021, the previous period only covered 6 months, rather than a full year, and was not representative of fluctuations in different financial quarters, making a comparison less useful. Significant work has been done since 2021 to increase awareness of procurement policy and of these exceptions processes, and this has uncovered areas where suppliers were working without a contract in place, leading to a contract having to be direct-awarded to reduce risk to the council whilst a competitive process is run. The types of exceptions captured by the waiver process have also been widened to cover additional risks to the council – both of these resulting in increased numbers of waivers. Without this addition in scope, the waiver total for 2023 would be 61, a reduction of 27 (30%) against the previous year.

The implementation of the new buying team from January 2024 has increased visibility and transparency of procurement activity between £25k and £100k guaranteeing compliance with our internal procurement code as well as ensuring we achieve value for money on each opportunity. Previously this was left to officers within Departments with no review or audit from a procurement perspective. Officers within the team are able to support council officers better understanding procurement processes and encouraging them to go to market rather than Direct Award to the incumbent or a preferred supplier. A key part of the new teams role is to review and approve POs between £25k - £100k, the aim of this is to ensure compliance with the procurement code for all spend within this threshold. This acts as a safety net in terms of capturing any spend that does not go through the new team.

In early 2024/25 we are moving to a contract management system linked to our tendering system which will include KPI collection as well as contract administration and storage. The system has been procured and contract signed. We are implementing tendering system for April 2024 with the linked contract management system to follow.

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?	
1	While interests declared by members are available on their individual biographies on the website, the Council should consider the creation of a central, online register of members' interests. This would enable a review of the interests of the Cabinet or of a specific Committee as a whole.	Governance Improvement	31 March 2021 in the AAR 2020-21.	Done in draft by October 2023.	Yes	No
2	The roles and responsibilities around maintaining this CapE register should be formalised and implemented. Consideration should also be given to including grant funded contracts with the voluntary, community and faith sectors in a similar database or register.	Economy, efficiency and effectiveness Improvement	31 March 2021 in the AAR 2020-21.	The external contracts register update is not complete.	No	Yes, as part of our improvement recommendation on page 29.

# Appendices

# Appendix A – Responsibilities of the Council

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

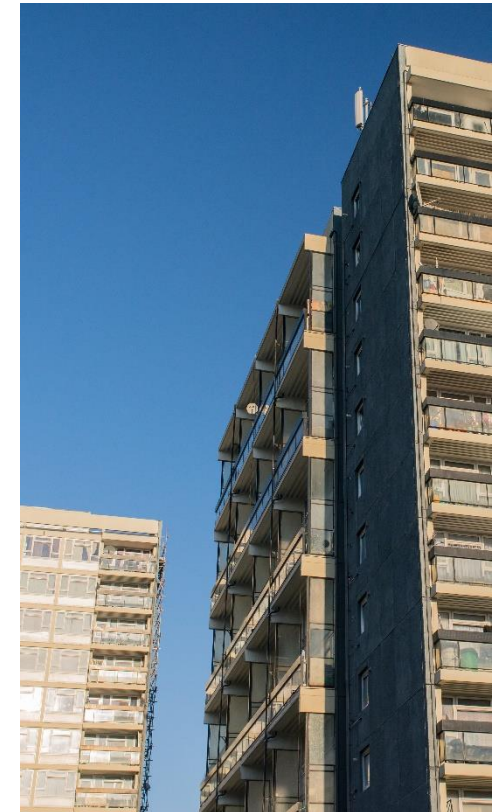
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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





# Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors :

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money, they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	Yes	6-9
Improvement	These recommendations, if implemented should improve the arrangements in place at in the Council but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	Pages 22, 23, 28, 29

