



Auditor's Annual Report  
London Borough of Hounslow – year ended 31 March 2025

February 2026

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Our reports are prepared in the context of the 'PSAA Statement of Responsibilities of Auditors and of Audited Bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. This document is to be regarded as confidential to London Borough of Hounslow. It has been prepared for the sole use of the Audit & Standards Committee as the appropriate sub-committee charged with governance. We do not accept any liability or responsibility to any other person in respect of the whole or part of its contents.

# 01

Introduction

# Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for the London Borough of Hounslow Council ('the Council') for the year ended 31 March 2025. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

### Opinion on the financial statements



In February 2026, we issued an audit report which includes a disclaimer of opinion. This means our audit report will not express an opinion on the financial statements and no assurance will be provided. It is necessary to issue a disclaimer of opinion as amendments to the Account and Audit Regulations introduced a statutory deadline for publication of the Council's financial statements. We are unable to complete the audit procedures necessary to obtain sufficient appropriate audit evidence on which to base our opinion before the date the Council publishes its audited financial statements.

### Reporting to the group auditor



We have been unable to issue our certificate as we have not yet received confirmation from the NAO that the group audit of the WGA has been completed and that no further work is required to be completed by us.



### Value for Money arrangements

We have reported a significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 3 provides our commentary on the Council's arrangements.

# 02

Audit of the financial statements

# Audit of the financial statements

## Background

The statutory backstop established a date in legislation by which local authorities were required to publish their financial statements irrespective of whether their external auditor had obtained sufficient appropriate audit evidence to issue a non-disclaimed audit opinion. The introduction of the backstop led to many local authority audits being disclaimed.

Audit suppliers have worked with the National Audit Office (NAO) and the Financial Reporting Council (FRC) to develop guidance to support local audit suppliers to rebuild assurance after previous audits have been disclaimed. In June 2025, the NAO issued its guidance to auditors (called LARRIG) on the special considerations for rebuilding assurance: [www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/](http://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/)

LARRIG 06 makes clear the work required to rebuild assurance following a disclaimer of opinion may be significant and will vary between authorities.

Under normal circumstances and following a financial year where the auditor has given an unmodified opinion on the financial statements, auditors would usually rely on assurance obtained in the prior period to be satisfied that the opening balances in the current year are free from material error. Following the completion of audit procedures on in-year transactions, the auditor would usually be able to form an opinion on the current year's financial statements. When a disclaimer of opinion has been issued in the prior periods, no such assurance can be taken and the auditor must design alternative audit procedures to be able to form a position on the current year's financial statements.

A disclaimed audit report was issued to London Borough of Hounslow for 2023/24

## 2024/25 audit of the financial statements

Our audit will be conducted in accordance with the requirements of the Code, and International Standards on Auditing (UK) (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2025 and of its financial performance for the year then ended.

We commenced our audit in October 2025, with a view to complete before the backstop date of 27 February 2026. Our detailed findings were shared with the Audit Committee, with a proposed disclaimed audit report as a result of insufficient time to obtain all relevant assurance before the backstop date.

Our Audit Completion Report provided all relevant information on adjustments, control findings and matters for the Audit Committee's attention and a copy is available from the Council's website.

## Annual Governance Statement

Based on the work performed to date, we have not identified matters where, in our opinion, the governance statement does not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

## 2024/25 Audit of the Pension Fund

We have been engaged to audit the financial statements of the London Borough of Hounslow Pension Fund (the Fund) for the year ended 31 March 2025 which are prepared in accordance with the 2024/25 Code of Practice on Local Authority Accounting. We issued our Audit Completion Report to the February 2026 Audit Committee, confirming that:

- We did not identify any significant deficiencies in internal control;
- We did not identify any misstatements in the draft Pension Fund accounts; and
- We anticipated issuing an unqualified opinion, without modification.

# 03

Our work on Value for Money  
arrangements

VFM arrangements

Overall Summary



# VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

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



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



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



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

Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

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

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

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

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

further risks of significant weaknesses.

### Phase 2 - Additional risk-based procedures and evaluation

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

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

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

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

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

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

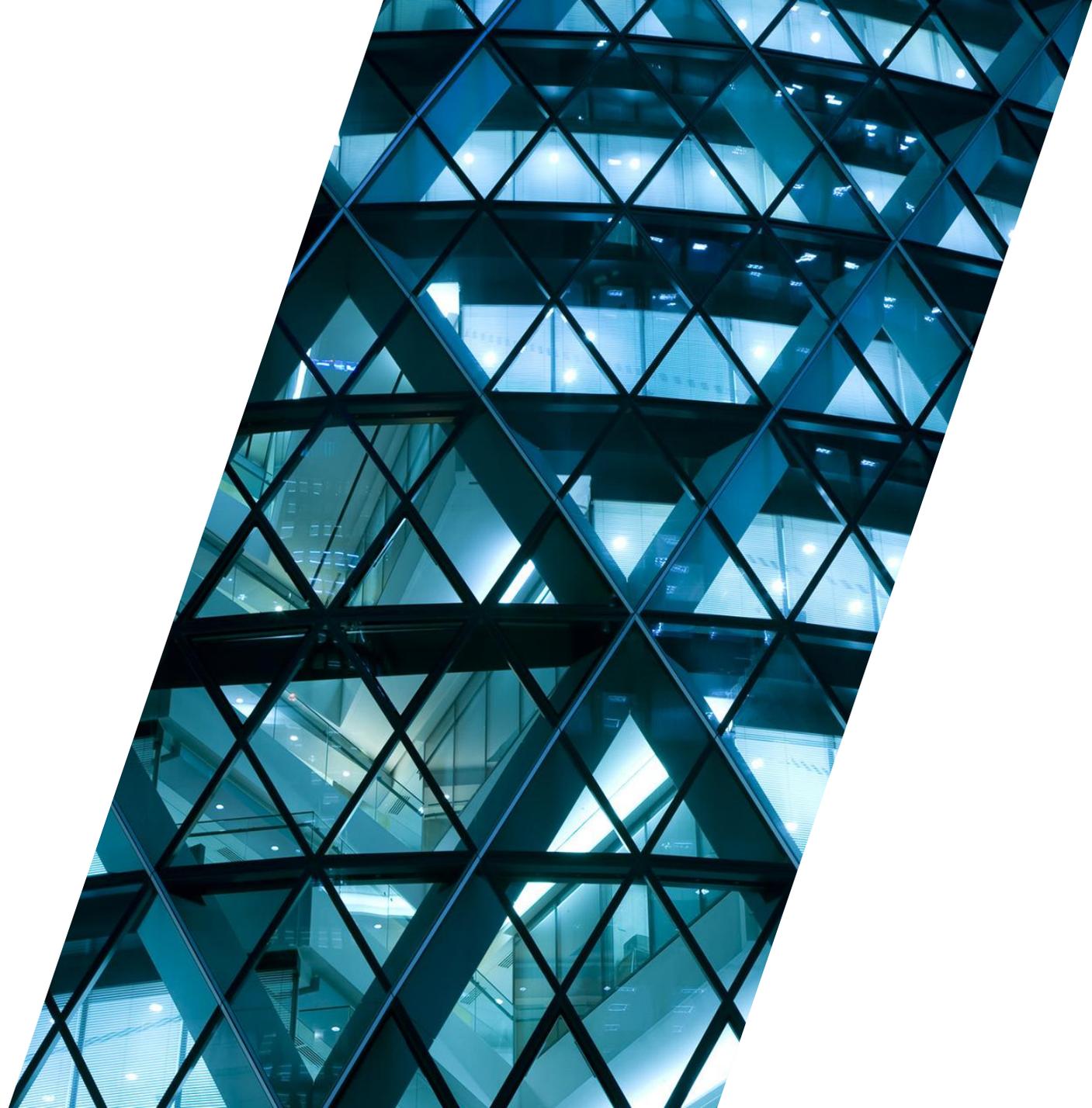
# VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Prior year significant weakness?	2024/25 Evaluation		
			Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
Financial sustainability	11	No	Yes – page 12	Yes – page 24	Yes – page 15
Governance	16	No	No	No	No
Improving economy, efficiency and effectiveness	20	No	No	No	No

## VFM arrangements

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



# VFM arrangements – Financial Sustainability

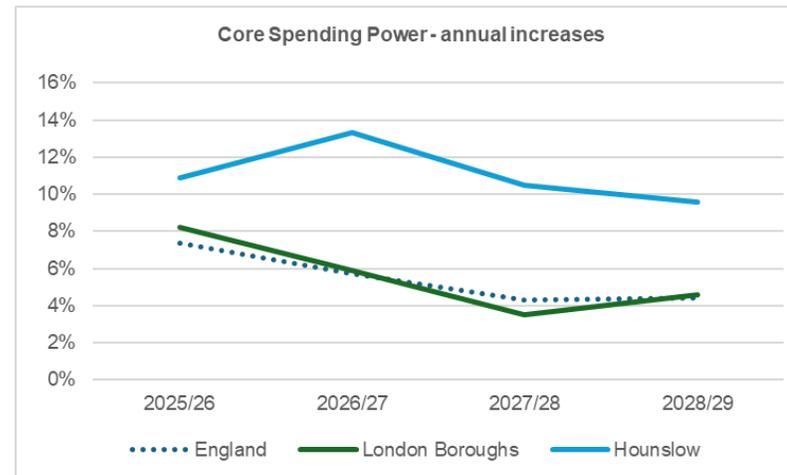
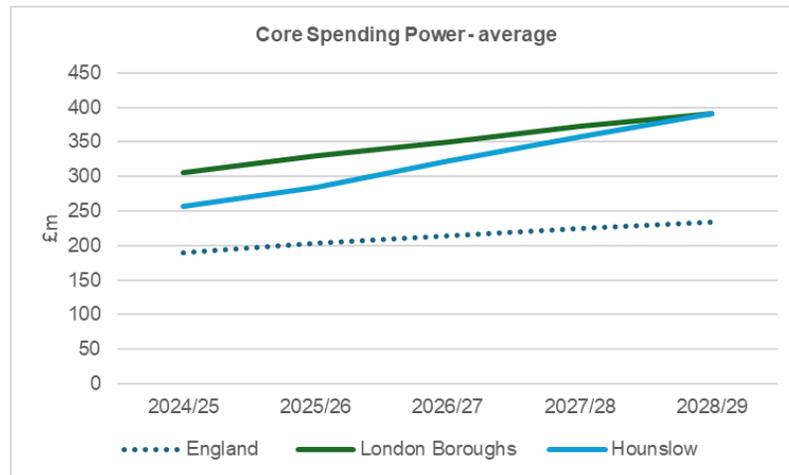
## Context – Provisional Local Government Finance Settlement 2026/27

Our report considers arrangements for the year ended 31 March 2025. The local authority finance environment has been through further developments since then, notably in the finance settlement in December 2025.

Financial sustainability remains one of the most pressing and persistent risks facing local government, with finance and resourcing risks cutting across local government activity and strategies.

To address financial sustainability risks proactively, local authorities should embed robust financial planning and scenario modelling into their medium-term financial strategies, ensuring assumptions are regularly stress tested. Integrating financial oversight into transformation programmes, strengthening governance of commercial activity. Authorities can enhance resilience by improving the quality and use of financial data, engaging with sector stakeholders and leveraging internal audit to provide assurance over high-risk areas such as savings delivery, treasury management and commercial governance..

In December 2025, the Government provided the Provisional local government finance settlement 2026 to 2027. The finance settlement has provided certainty in funding and increases in core spending power, however the sector will continue to face challenges through the cumulative impact of inflation, rising employer costs and increasing demand on statutory services - in particular adult and childrens' social care, SEND provision and homelessness support. We have used MHCLG data on core spending power to illustrate the impact to the London Borough of Hounslow. It shows that the settlement brings increases in spending power over time and ultimately closer to the average for London Boroughs in 2028/29.. The settlement will provide some certainty to support an updated medium term financial plan that builds resilience into revenue reserves and drives the transformation and efficiencies required to be more resilient to the increase in spending power means the Council can model has some additional capacity to tackle underlying challenges and demand pressures where a proactive, whole organisation approach is essential to navigate uncertainty and build long-term financial resilience.



\*Per MHCLG, Core Spending Power represents the core revenue funding for local authority services through the local government finance settlement. It includes revenue grants, locally retained business rates, and council tax. Over the multi-year period, council tax assumes: (i) Band D rates rise to the maximum allowed under 2026–27 referendum principles, and (ii) each authority's tax base grows at its average annual rate from 2021–22 to 2025–26.

# VFM arrangements – Financial Sustainability

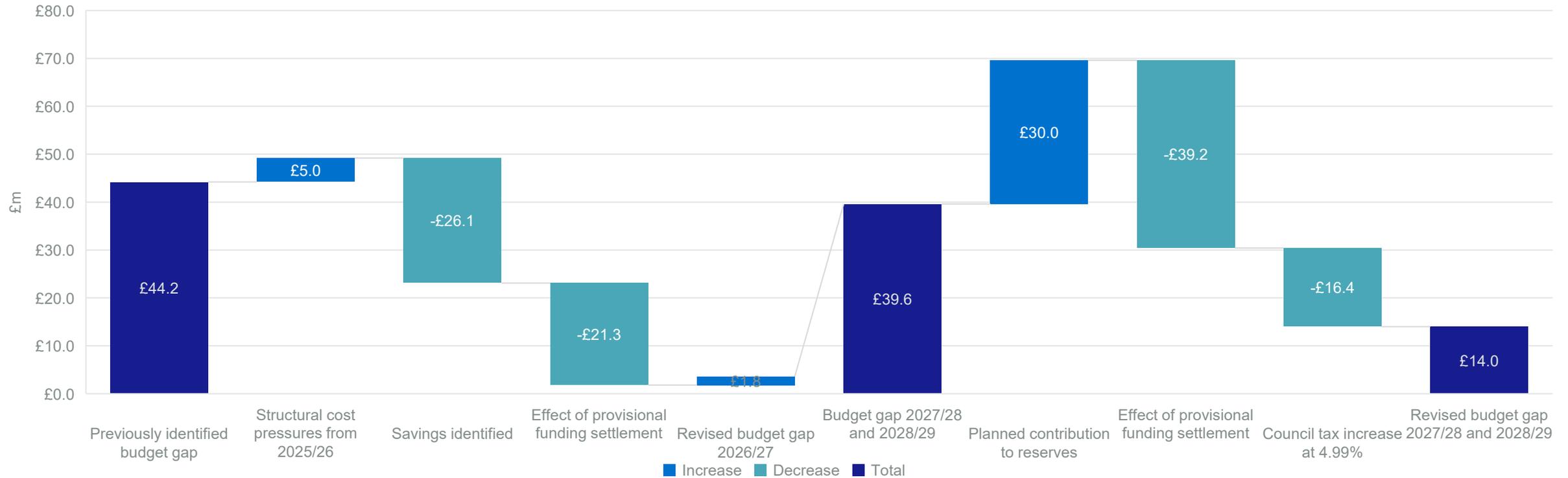
## Context – Provisional Local Government Finance Settlement 2026/27

### 2026/27 draft budget proposals

Our commentary and findings are based on the position at 31 March 2025. Given the timing of our final report, we have considered how the Council's 2026/27 budget has been affected by the local government provisional finance settlement from December 2025 as presented to the overview & Scrutiny Committee on 26 January 2026 and through discussions with Officers and review of briefing reports on the emerging position.

Through a budget review process covering workshops and themed workstreams, the Council has identified £26.1m in savings for 2026/27. This combined with a £21.3m funding benefit reduced the previously identified budget gap of £44.2m down to £1.8m. From 2027/28 to 2028/29, the Council expects an ongoing benefit of around £20m from the fair funding settlement, which, if council tax increases at 4.99%, would lead to a cumulative budget gap in 2028/29 of £14m, showing a considerably improved position that alleviates some of the financial pressures facing the Council. This provides up to date context of the financial position but does not change our commentary over the historic position for the year 2024/25, nor our recommendations as the Council will still need to implement its plans and embed financial resilience.

Hounslow draft medium term financial position



# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

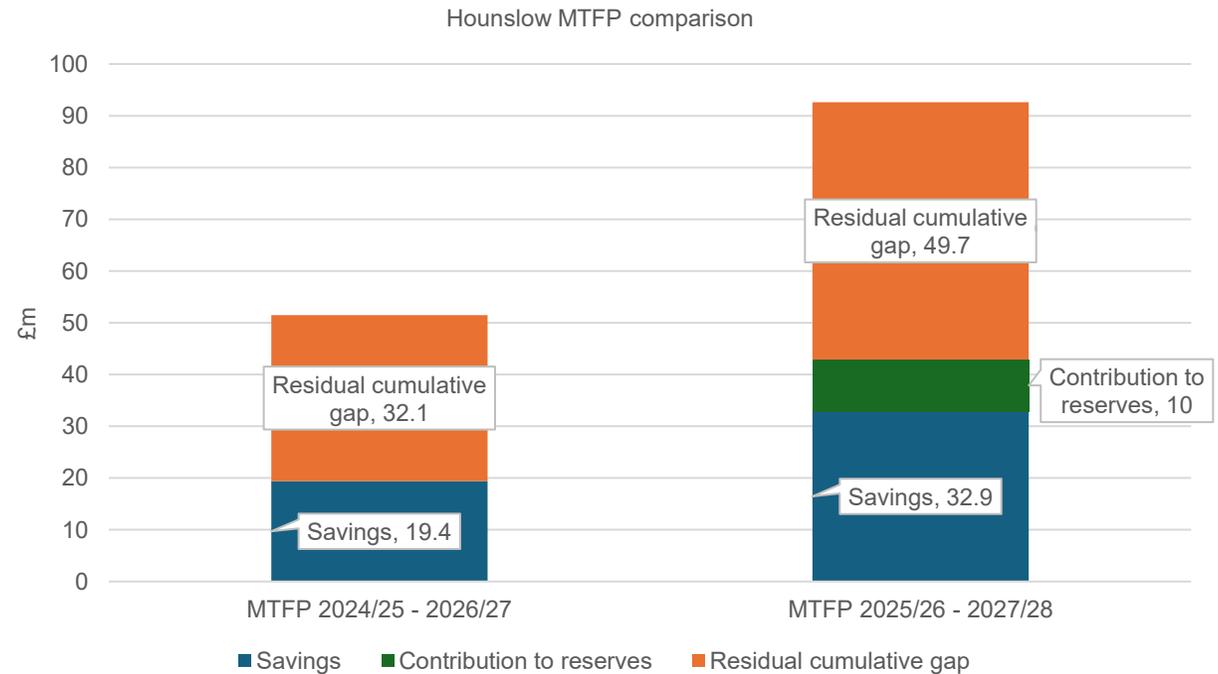
Risk of significant weakness in arrangements	Planned procedures
<p><b>Financial sustainability: Medium Term Financial Position</b></p> <p>In setting the 2025/26 Budget, the Council updated the One Hounslow Financial Strategy (OHFS), which included a projected gap in 2026/27 of £44.7m and £49.7m in 2027/28 after allowing for a £10m rebuild of reserves. Whilst the Council is developing options to identify savings, and evaluate the impact of the Fair Funding Review, the size of the financial gap and potential effect on general fund reserves presents a risk to the Council’s financial sustainability.</p>	<p>Our work to address the risk included, but was not limited to:</p> <ul style="list-style-type: none"> <li>• Reviewing the financial budget for 2024/25 and 2025/26, including the Medium-Term Financial Strategy</li> <li>• Meeting with officers and discuss the Council’s plans to address the forecast budget gaps and evaluate the reasonableness of the actions taken to eliminate the forecast deficits.</li> </ul>

### Results of our work

We considered the 2024/25 budget setting process as part of our work for 2023/24, which included the On Hounslow Financial Strategy (OHFS). The Council’s 2025/26 budget setting and medium-term financial planning follows a similar process and format to previous years and our review is supported by discussions with officers during the year and experience from prior year work.

The OHFS integrated revenue allocations, savings targets and capital investment and provides the budget for the next financial year and provides indicative budgets and future council tax and housing rent levels for the period covered by the strategy. The arrangements in place for budget setting and updating the medium-term financial plan are as expected, with arrangements for: consultation, scrutiny, evaluation of financial risk, alignment to business plans and sources of funding.

We compared the financial outlook as included in the 2024/25 and 2025/26 OHFS, which is summarised in the chart opposite with further detail on the next page.



# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Risk of significant weakness in arrangements: results of our work continued

The chart of the previous page is draft from our review of the 2024/25 and 2025/26 OHFS, which has been summarised in the tables opposite.

From our review of Cabinet papers, we noted that was a net £14.8m overspend against the General Fund revenue budget, including a directorate variance of £25.8m partly offset by a favourable variance of £11.0m on corporate budgets, including the use of risk earmarked reserves. This also set out that, whilst the General fund balance increased from £13.8m to £18m: un-ringfenced earmarked reserves (risk reserves and strategic investment reserve) fell from £81.3m to £48.7m; and earmarked reserves fell from £102.2m to £70.8m. Overall, there has been a fall of £59.8m (30%) in these reserves between 2023/24 and 2024/25 from £197.3m to £137.5m.

For the year ended 31 March 2025:

- The 2024/25 general fund outturn position was a net £14.8m overspend leading to an additional draw on reserves, where general balances and un-ringfenced earmarked reserves fell by £59.8m in 2024/25
- The OHFS is left with a residual cumulative gap of £44.7m in 2026/27 rising to £49.7m in 2027/28.
- This position is dependent on delivering £32.9m savings.

### Conclusion

In our view, whilst the Council is developing options to deliver savings and tackle the funding gap, the size of the savings required, the size of the residual cumulative financial gap and the potential effect on general fund reserves is evidence of a significant weakness in arrangements that exposes the Council to significant financial risk, including depleted revenue reserves and potential risk in setting a balanced budget.

Medium term outlook (cumulative)		2023/24	2024/25	2025/26	2026/27	2027/28
2024/25 Budget	Service planning savings	3.0	9.0	12.8	17.6	
	Delivery plan projects	0.9	1.5	1.8	1.8	
	Use of reserves	24.3	25.9	2.6	-0.3	
	Residual cumulative gap	0.0	0.0	28.3	32.1	
2025/26 Budget	Service planning savings		9.6	18.7	24.1	27.7
	Delivery plan projects		1.5	2.7	4.7	5.2
	Use of reserves		25.3	35.3	0.8	1.2
	Contribution to reserves		0.0	0.0	10.0	10.0
	Residual cumulative gap		0.0	0.0	44.7	49.7

# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Arrangements for planning finances to support the sustainable delivery of services in accordance with strategic and statutory priorities and alignment to other plans

We have reviewed the Council's overall governance framework, including Council and committee reports, the Annual Governance Statement, and Statement of Accounts for 2024/25. These confirm the Council undertook its responsibility to define the strategic aims and objectives, monitor financial performance against budgets and plans to best meet the needs of the Council's service users.

### 2024/25 Budget Setting and the Medium-Term Financial Strategy

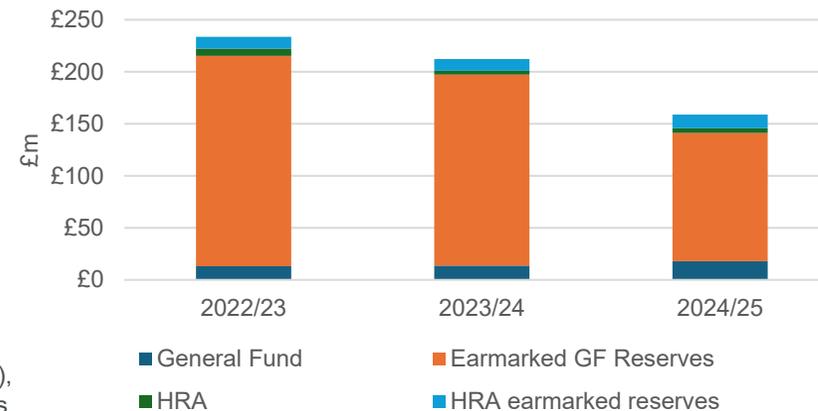
We considered the 2024/25 budget setting process as part of our work for 2023/24, which included the Medium-Term Financial Strategy (MTFS) and were satisfied arrangements were adequate.

### 2024/25 outturn

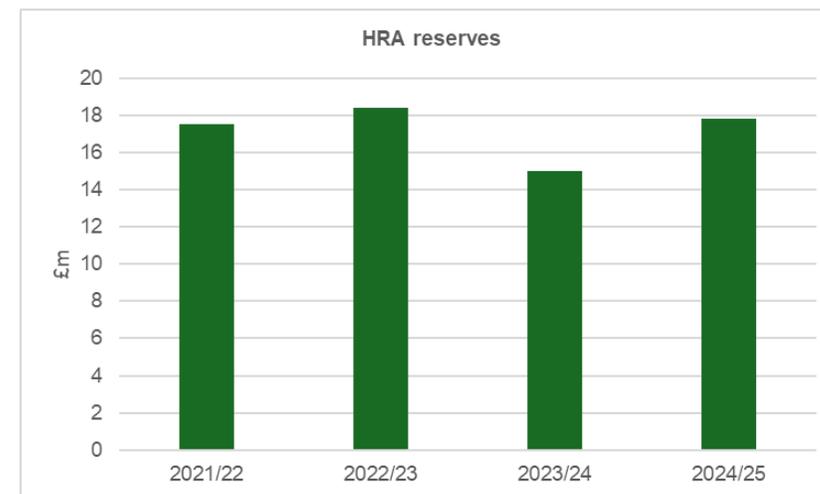
We reviewed the 2024/25 outturn reported to Cabinet in June 2025 and the draft statement of accounts, which showed a General Fund revenue overspend of £14.8m, driven primarily by demand-led pressures in adult social care (£4.3m), treasury disinvestment losses (£3.9m), increased waste management costs (£1.8m), and rising homelessness pressures (£2.2m), resulting in an additional £4.2m draw on reserves beyond the planned £17.6m. Despite progress under the Department for Education's Safety Valve programme, the cumulative Dedicated Schools Grant deficit rose by £1.1m to £12.3m. Meanwhile, the Housing Revenue Account, which had budgeted a £3.4m contribution to balances, delivered only £2.1m due to higher void levels, increased repairs and maintenance costs, and elevated interest charge.

We also examined the Council's useable revenue reserves as presented in the financial statements. HRA reserves have been shown to be stable since 2021/22, although general fund reserves show an ongoing pattern of erosion, although whether this continues beyond 2026/27 will be, in part, influenced by the outcome of the fair funding review.

Hounslow Council: useable revenue reserves



HRA reserves



# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Financial pressure areas

#### Flexible Capital Receipts

The Spending Review 2015 included a relaxation to regulations allowing the use of capital receipts for a limited period, between 2016/17 and 2018/19, to fund revenue expenditure “that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or improve the quality-of-service delivery in future years”. This announcement was implemented by the issuing of regulations in March 2016. The ability for local authorities to make flexible use of capital receipts has been extended numerous times, most recently the Local Government Finance Policy Statement in November 2024 notified authorities this flexibility would continue until 2030.

To make use of this flexibility, the local authority must follow statutory guidance, including the approval of a Flexible use of Capital Receipts Strategy. The Council has not had such a strategy in previous years, meaning it has not taken advantage of this flexibility and instead funded qualifying expenditure through revenue reserves, which, as per the draft 2024/25 financial statements have fallen by 34% since 2022/23.

We reviewed the budget setting report for full Council in February 2025, confirming the Council has now approved a Flexible Use of Capital Receipts Strategy which sets out projects in scope for qualifying expenditure but also recognises an inhibiting factor in the level of unallocated general fund capital receipts available for use. The amount capitalised in the financial year must not exceed the amount set out in the plan provided to the Secretary of State, however, the Council may revise its plans and send an update at any time in the financial year.

Whilst the Council's intention to use capital receipts to fund transformation is a valid option and not significant for 2024/25 or 2025/26, it is important to recognise that excessive/over reliance use of flexible capital receipts could lead to a risk of significant weakness in arrangements for financial sustainability and the Council cannot avoid decisions to bridge the financial gap by using this approach to bridge the financial gap.

**“Other” Recommendation:** If applied in 2025/26 and beyond, the Council must ensure appropriate arrangements are in place to apply and monitor the use of flexible capital receipts in line with relevant guidance and ensure only valid expenditure is funded via this mechanism. Additionally, the Council needs to ensure transformation expenditure translates into realised savings.

#### Minimum Revenue Provision (MRP)

The Minimum Revenue Provision is a charge that the Council makes in its financial statements for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt ie the Capital Financing Requirement).

The Council's Capital Financing Requirement covers both the Housing Revenue Account and the General Fund, with statutory mechanisms in place to pay the balance.

The MRP represents the repayment mechanism for the general fund and there are flexibilities in how the amount is calculated provided the amount is “prudent”. From our review of the financial statements, we noted that for 2024/25, the Council's general fund MRP is 3% of the opening General Fund Capital Financing Requirement, which is consistent with the prior year (3%). The Council's position does not present a risk of significant weakness in arrangements.

# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Financial pressure areas (continued)

#### Dedicated Schools Grant (DSG)

It is a statutory requirement under the DSG conditions of grant that local authorities maintain a plan to manage any overspend on the DSG. Using the published financial statements, we note that the Council's net DSG deficit since 2021/22 has been:

	2021/22	2022/23	2023/24	2024/25
Net DSG deficit (£million)	18.3	11	11.2	12.3

Many local authorities in England currently have DSG deficits, frequently resulting from pressures on their high needs budgets. To support local authorities in addressing DSG deficits, the DfE introduced the Safety Valve and Delivering Better Value initiatives, which have now been superseded by SEND reform proposals deferred until 2026.

In March 2023, the Council entered into an agreement with the Department for Education under the Safety Valve programme, aimed at reducing the cumulative deficit on the Dedicated Schools Grant (DSG) over a defined period. This reduction was to be achieved through savings and reforms within the council's high needs education system, supported by additional DSG funding. While progress continued in implementing the DSG Management Plan, the cumulative DSG deficit nevertheless rose by £1.1m during the year, bringing the total to £12.3m.

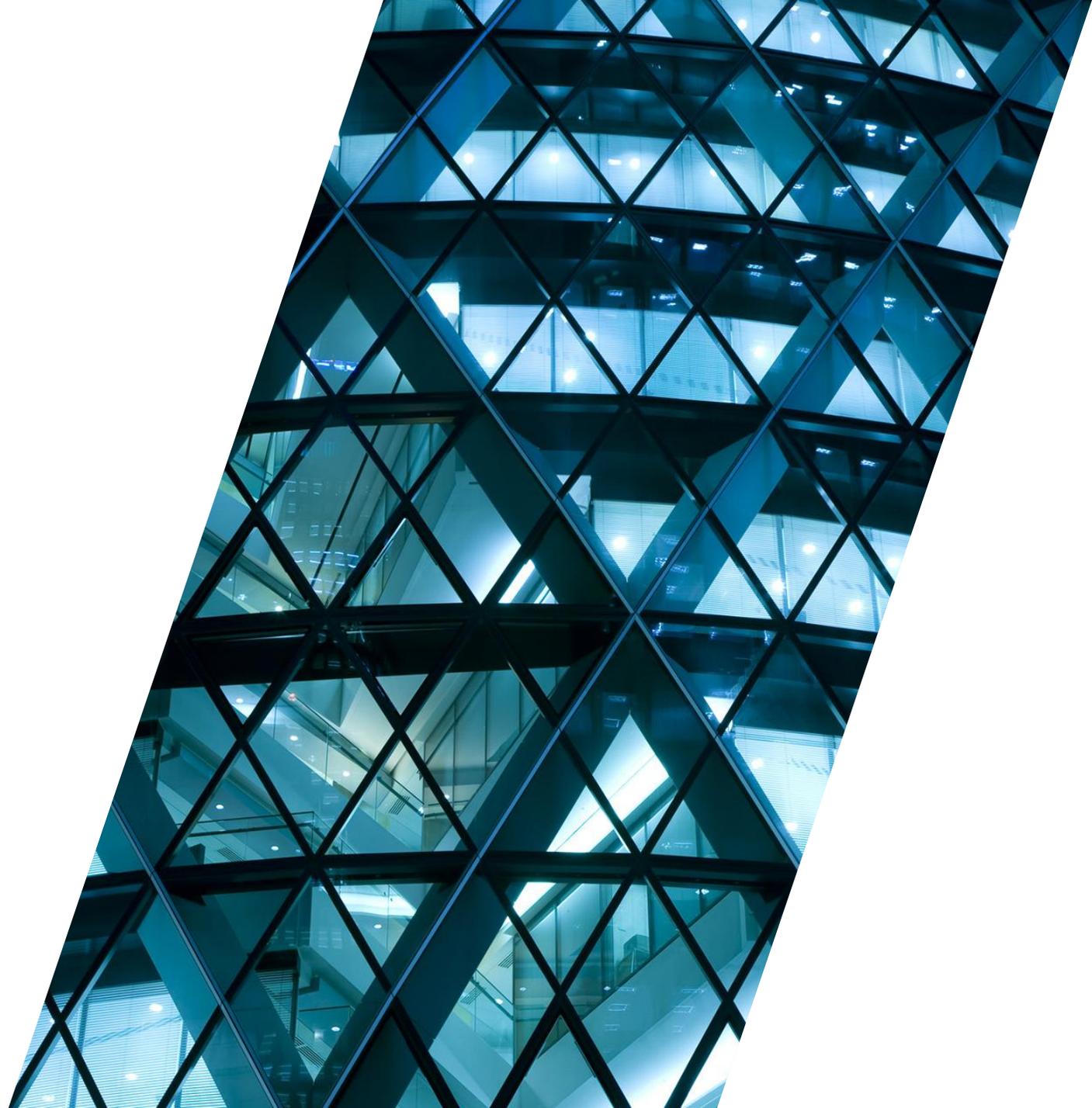
The Government's statutory override for DSG deficits, originally due to expire in March 2026, has been extended for a further two years to March 2028. Whilst the deficit at the financial year end is much less than the position in 2021/22, on expiry of the override, the Council would need to incorporate the cumulative deficit in its useable reserves, which would compound the Council's existing issues with regard to financial sustainability.

Government plans on SEND reform is expected early in 2026. This may include clarity on the position regarding historic DSG deficits once the statutory override ends.

**“Other” Recommendation:** The Council needs to continue to work with partners to manage and implement a comprehensive DSG deficit mitigation plan to address current and projected budgetary pressures and evaluate the impact on general fund balances, while reflecting on the implications of forthcoming SEND reforms.

## VFM arrangements

Governance: how the body ensures that it makes informed decisions and properly manages its risks



# VFM arrangements – Governance

## Overall commentary on the reporting criteria

### Arrangements for monitoring and assessing risk

The Annual Governance Statement is a critical component of the Council's governance arrangements. It is an evidenced self-assessment by the Council on the Council's governance, assurance and internal control frameworks for the financial year.

WWe have reviewed the Council's 2024/25 Annual Governance Statement presented to the July 2025 Audit Committee, which outlines how the London Borough of Hounslow ensures compliance with legal and governance standards, safeguarding public funds and promoting transparency. It describes the Council's governance framework based on the CIPFA/SOLACE principles, covering leadership, decision-making, risk management, scrutiny, and stakeholder engagement.

The Annual Governance Statement confirms that governance arrangements include a robust system of internal control, supported by risk registers, performance monitoring, and internal and external audits. Directors provide assurance statements, and the Council maintains policies such as codes of conduct, whistleblowing, and anti-fraud measures. The Corporate Plan and associated delivery mechanisms ensure alignment of resources with strategic priorities, while oversight is provided through Cabinet, Audit and Governance Committee, and scrutiny processes.

### Risk management

The Council has an established risk management systems in place which are built into the governance structure of the organisation. The Audit Committee receives regular reports on the corporate risk register and we have attended meetings of the Committee and reviewed minutes and reports presented during the year, including matters relating to risk. From our attendance at meetings and review of the minutes, we are satisfied there is sufficient evidence of Member oversight of risk management

We considered the 2024/25 outturn report on corporate risks as presented to the Audit Committee in July 2025, where a refreshed Risk Management Framework was also presented with the aim to further strengthen governance by embedding risk considerations into decision-making, increasing engagement beyond the Corporate Leadership Team through more dynamic reporting, and improving the organizational culture around risk. An action plan accompanies the framework to implement these changes, focusing on better integration of risk management practices across the Council.

While, the presence of risks do not present additional risks of significant weakness in arrangements, there remain key areas of challenge that require robust oversight. In light of ongoing challenges and uncertainty in the local government sector, including fair funding review and dedicated schools grant deficits, alongside ongoing demand-led pressures in social care and special educational needs, means the Council must ensure

its arrangements are robust and that assurance on control activities/mitigations are being regularly reviewed and tested under the new framework.

### Arrangements for decision making and assurance

The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of effectiveness, economy and efficiency. In doing this it is responsible for putting in place proper arrangements for the governance of its affairs, effective exercise of its functions and arrangements for the management of risk.

Our review of Council papers confirms that a template covering report is used for all reports, ensuring the purpose, implications, and recommendations are clear. Minutes are published and reviewed by Committees to evidence the matters discussed, challenge and decisions made.

Based on our work, we are satisfied the Council has established governance arrangements, consistent with previous years, in place. These are detailed in the Statement of Accounts and Annual Governance Statement. We have considered both documents against our understanding of the Council as part of our audit.

### Internal Audit

Internal Audit progress reports are regularly presented to the Audit Committee meetings and from our attendance at meetings and review of minutes, we are satisfied this allows the Council to effectively hold management to account.

We have met with Internal Audit and made specific enquiries of them regarding fraud and control. We reviewed the Head of Internal Audit Annual Opinion for 2024/25, which was that: "Reasonable assurance can be given that there is a sound system of internal control, designed to meet the organisation's objectives and that controls are applied consistently."

Our review has not highlighted a risk of significant weakness in arrangements relating to Internal Audit's conclusions on 2024/25.

### Audit Committee

For Hounslow, the Audit Committee is a critical component of good governance. We have attended numerous meetings of the Committee during the year and have considered minutes of meetings and supporting reports. Based on this evidence, we are satisfied the Audit Committee performs in line with expectations, is adequately serviced and attended by officers as required. We note that the Council has taken further steps to strengthen the committee in 2025/26 through co-option of additional experienced independent members.

# VFM arrangements – Governance

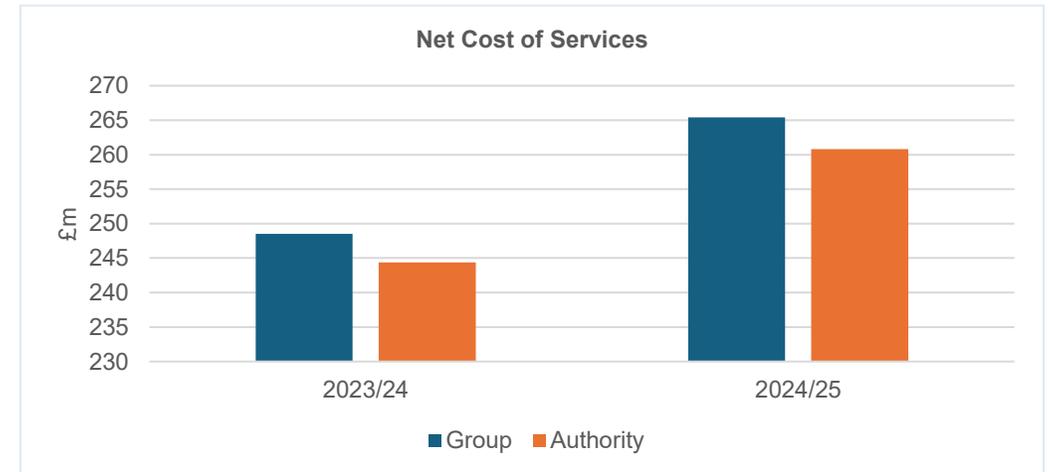
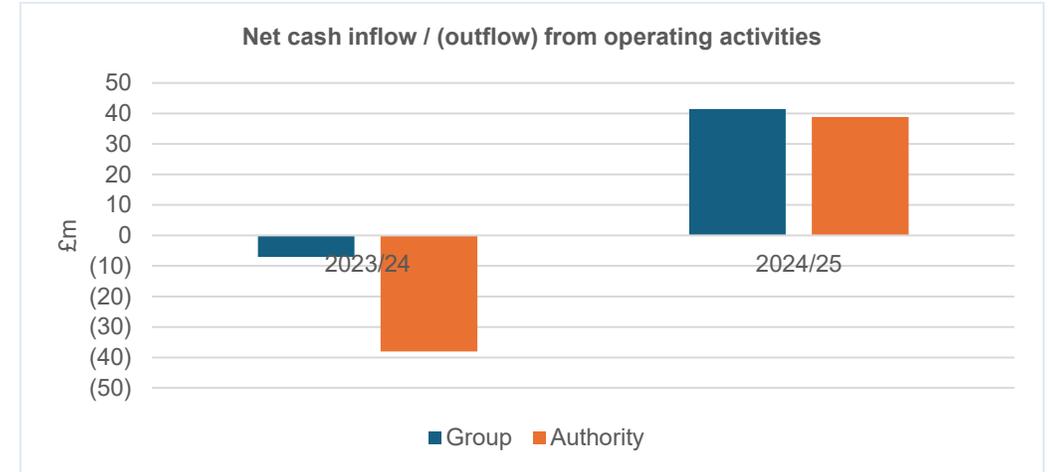
## Overall commentary on the reporting criteria

### Budgetary control and 2024/25 outturn

Our review of arrangements is supported by discussions with officers during the year and review of reports, confirming regular financial monitoring takes place, including reporting to Cabinet.

As presented to the February 2025 meeting of Cabinet, at Quarter 3 a £16.1m overspend on the general fund revenue budget. The Budget Outturn Report for 2024/25 reveals a challenging financial year for the London Borough of Hounslow, with a net General Fund overspend of £14.8 million, driven by persistent pressures in Adult Social Care, Housing, Waste and Recycling, and Leisure Services. Although this represents a slight improvement from the Quarter 3 forecast, it necessitated a significant drawdown from reserves, contributing to a 30% reduction in total reserves from £197.3 million to £137.5 million. Whilst there is no evidence of a significant weakness in the Council's budgetary control in 2024/25, the effect of overspends and reduction in reserves is a contributing factor to the significant weakness in financial sustainability reported in the previous section of this report.

We have used the draft financial statements and considered cashflow and net cost of services at Group and Authority level and are satisfied these do not present a risk of significant weakness.



# VFM arrangements – Governance

## Overall commentary on the reporting criteria

### Budget setting 2025/26

The Council's budget setting and medium-term financial planning follows a similar process and format to previous years and our review is supported by discussions with officers during the year and experience from prior year work. The arrangements in place for budget setting and updating the Medium-Term Financial Plan are as expected, with arrangements for: consultation, scrutiny, evaluation of financial risk, alignment to business plans and sources of funding.

As with other local authorities, the Council is awaiting the outcome of the Fair Funding Review and will need to factor in any changes to its budget for 2026/27. Notwithstanding this, the Council continues to face significant financial challenges that will require sustained effort to address. For example, in November 2025, Cabinet was informed of £10.5m overspend with potential opportunities identified to reduce the net overspend to £8m. Our review of the report also confirmed there were arrangements in place to track savings, with £4.3m delivered and another £7m expected to be delivered within the financial year. There remains inherent risk as this report also highlighted a risk of non-delivery of £3.1m savings in 2025/26.

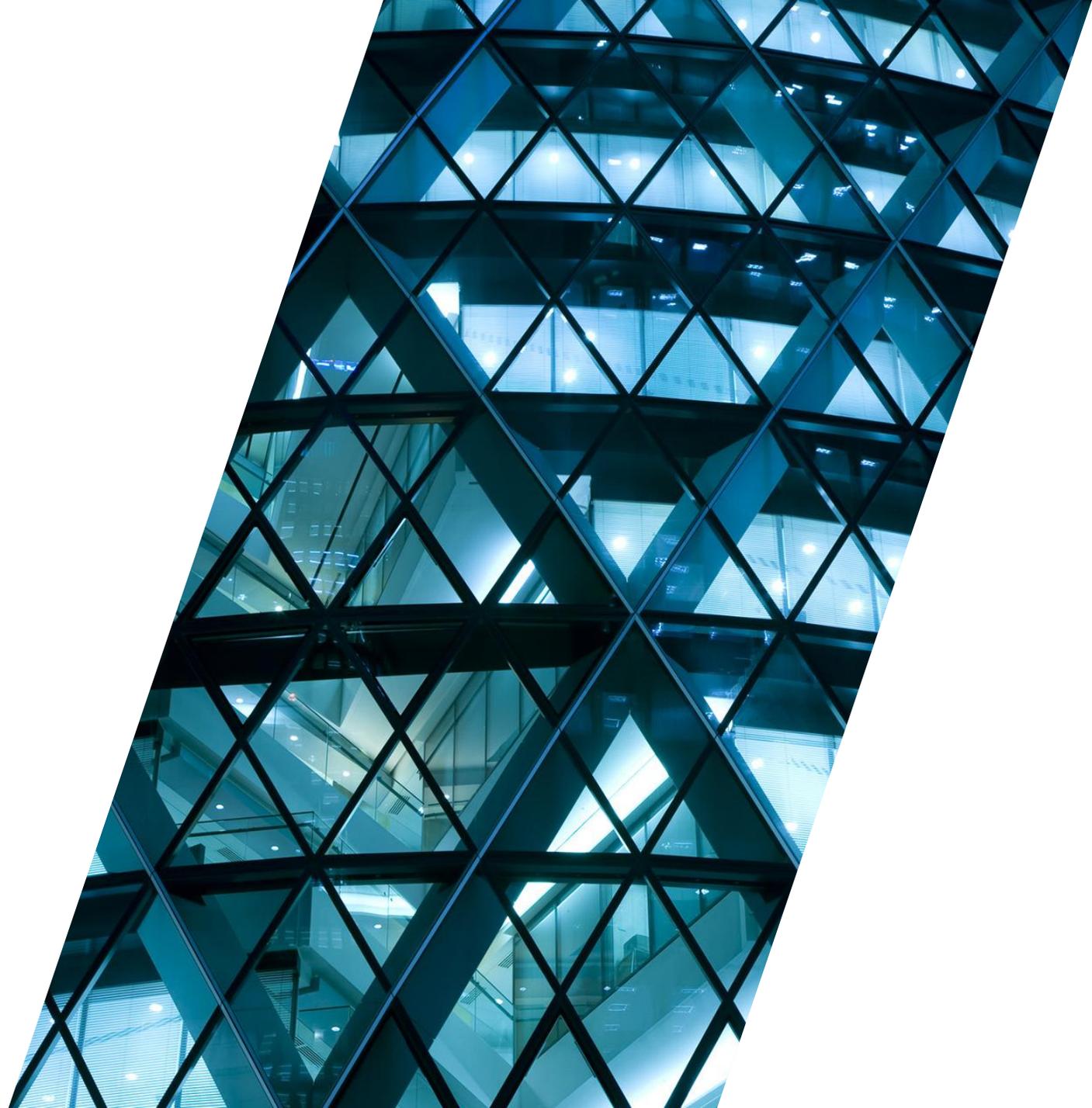
We say more on the Council's financial position under our commentary of financial sustainability arrangements.

### Financial Reporting

The financial statements of the Lampton Group are incorporated into the consolidated financial statements, and we have provided the Council with our planned approach within the Audit Strategy Memorandum. Our audit of the 2024/25 financial statements has identified areas for improvement, but none that indicate a significant weakness in arrangements.

## VFM arrangements

Improving Economy, Efficiency and Effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services



# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the reporting criteria

### Corporate planning and performance management arrangements

Based on our review of minutes, meetings with officers and evidence drawn from the prior year, the Council's arrangements are consistent with the previous year which were deemed adequate.

The approach to corporate performance in the London Borough of Hounslow is structured around the Delivery Plan, which aligns with the Council's Corporate Plan 2022–2026. This plan is delivered through four key portfolios—People, Place, Capital, and Digital—each containing programmes and projects that support strategic priorities.

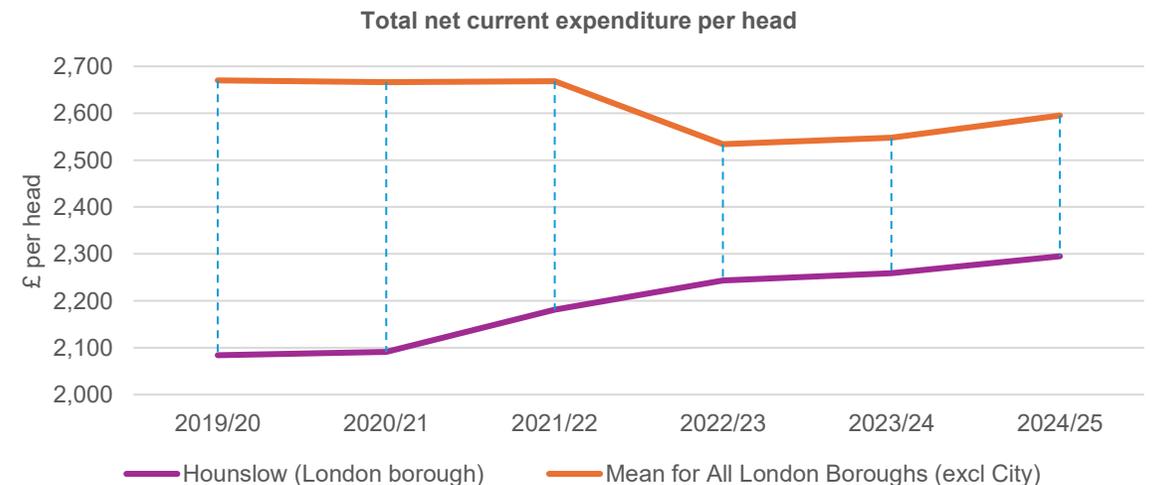
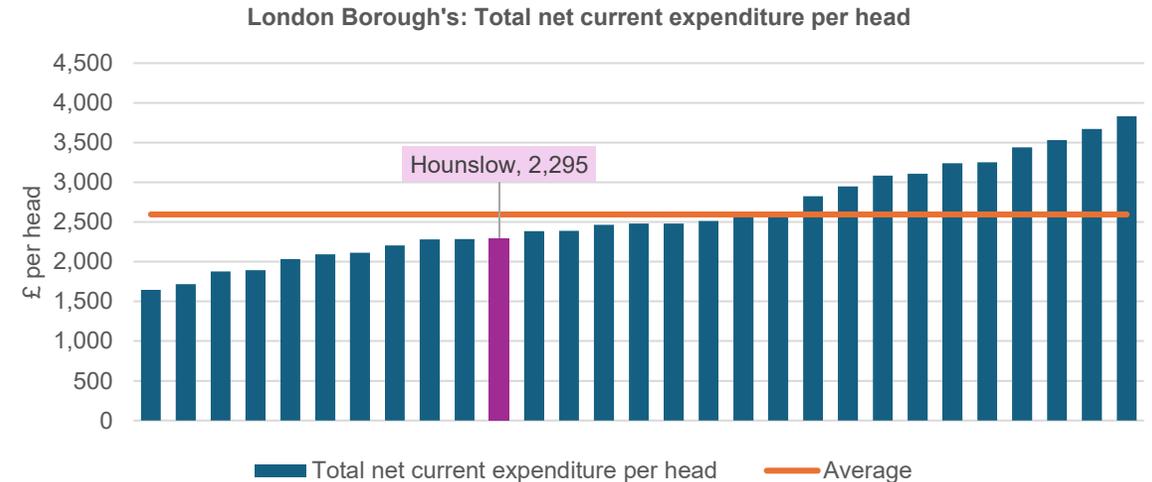
The Council uses the One Hounslow Approach to Project and Programme Management (PPM), which includes business case development, benefits tracking, and RAG (Red-Amber-Green) status assessments to evaluate progress, risks, and outcomes. Each programme and project is required to maintain a risk register and follow a benefits management process. Financial performance is tracked against approved budgets, with savings targets built into the Council's revenue budget and monitored annually.

Performance is monitored quarterly and reported to Cabinet and the Overview and Scrutiny Committee, ensuring transparency and accountability. We reviewed the 2024/25 Delivery Plan Monitoring report presented to Cabinet in June 2025 and are satisfied it provides in adequate detail an update on the progress of Hounslow Council's strategic programmes across four portfolios: People, Place, Capital, and Digital.

From the evidence reviewed, we have not identified a risk of significant weakness in the Council's arrangements.

### VFM profiles

We have considered external profiles published by [vfm.lginform.local.gov.uk](http://vfm.lginform.local.gov.uk) and reproduced the charts opposite using the data publicly available. We are satisfied there is no evidence of a risk of significant weakness in arrangements.



# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the reporting criteria

### Review of regulatory reports

We have reviewed a range of reports from regulators issued in 2024/25, including:

- Care Quality Commission (CQC) – London Borough of Hounslow: local authority assessment by the CQC published in May 2024 rates the Council as “good” in meeting its duties under Part 1 of the Care Act (2014)
- SEND - We reviewed the inspection report by CQC and Ofsted from their October 2024 area SEND inspection of Hounslow Local Area Partnership, which found that arrangements lead to inconsistent experiences and outcomes for children and young people with special educational needs and/or disabilities (SEND). The local area partnership must work jointly to make improvements. The next inspection will be in three years time.
- OFSTED - A focused visit to took place in July 2025 did not identify any significant concerns and the overall rating remains ‘good’.
- Regulator of Social Housing - the Council’s first inspection of consumer standards by the Regulator of Social Housing was published in October 2025 with a rating of C2, described as “there are some weaknesses in the landlord delivering the outcomes of the consumer standards and improvement is needed.” The inspection found that although 96% of homes meet the Decent Homes Standard, there are overdue remedial actions related to fire, water, and electrical safety. The Council has committed to addressing these issues and improving health and safety reporting to enhance oversight by councillors and tenants. The judgement also highlighted strengths in the Council’s repairs service, anti-social behaviour response, tenancy management, and commitment to fairness and respect. However, improvements are needed in making performance information more accessible and supporting tenant-led scrutiny.

From the above, we are satisfied that there is no evidence of a risk of significant weakness in the Council’s arrangements for improving economy, efficiency and effectiveness in its use of resources.

### Lampton Group

From our review of Cabinet reports, meetings with officers and other key documents, we note that a “Governance Reset” took place in November 2023 to commence a strategic overhaul of the Council’s relationship with its wholly owned Lampton Group of companies. Central to this reset was the creation of a

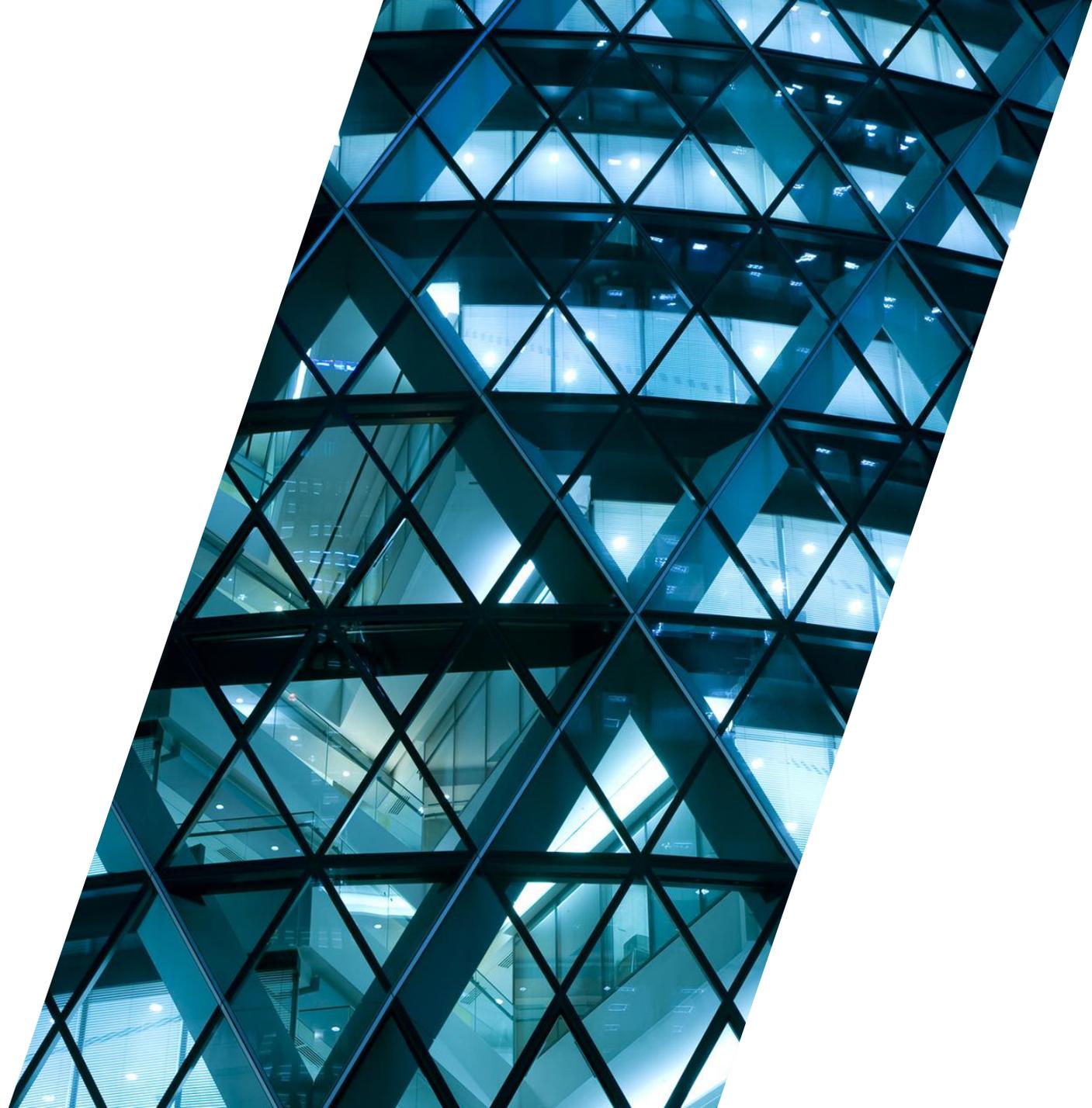
Shareholder Committee, composed of Cabinet members, which provides oversight, strategic direction, and ensures alignment with the Council’s priorities. Supporting this governance model are key documents including a Strategic Intent, Growth Framework, revised Articles of Association, and a refreshed Shareholder Agreement. These changes clarified roles between the Council as shareholder, commissioner, and service provider, with the aim of enabling Lampton to operate commercially and deliver social value. The reset also introduced a tiered approval process for business growth opportunities based on risk and investment levels.

We also considered the 2025/26 Business Plan for the Lampton Group, which outlines a focus on sustainable growth, service quality, and operational efficiency. Financially, the Group forecasts a £0.8 million deficit, with total revenues of £85.7 million and operating profits of £23.7 million before overheads. The Plan was reviewed by the Shareholder Committee and Cabinet, with implementation led by the Lampton Group with ongoing monitoring by the Council to ensure delivery against strategic goals.

We are satisfied there is no evidence of a risk of significant weakness in the Council’s arrangements for oversight and monitoring of the Lampton Group.

# VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



# VFM arrangements – Significant weaknesses in arrangements and recommendations for improvement

## Identified significant weaknesses in arrangements and recommendations for improvement **DRAFT SUBJECT TO CONSULTATION**

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

Identified significant weakness in arrangements	Reporting criteria	Recommendation(s) for improvement	Our views on the actions taken to date
<p><b>Financial sustainability: Medium Term Financial Position</b></p> <p>In setting the 2025/26 Budget, the Council updated the One Hounslow Financial Strategy (OHFS) which identified £32.9m in savings over the period 2025/26 to 2027/28 and a plan to add £10m to reserves in 2026/27. However, the OHFS includes a £49.7m residual cumulative gap by 2027/28, after the use of £35.3m in revenue reserves in 2025/26 and 2026/27, and this unidentified savings gap would need to be met from useable revenue reserves. At 31 March 2025, the general fund balance was £18m and earmarked general reserves set aside for specific commitments were £123.1m.</p> <p>In our view, whilst the Council is developing options to deliver savings and tackle the funding gap, the size of the savings required, the size of the residual cumulative financial gap and the potential effect on general fund reserves is evidence of a significant weakness in financial sustainability arrangements particularly in relation to how the Council plans to bridge its funding gaps and manage its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities.</p>	<p>Financial Sustainability:</p> <ul style="list-style-type: none"> <li>• How the Council plans to bridge its funding gaps and identifies achievable savings</li> <li>• How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities</li> </ul>	<p>The Council should use the outcome of the 2026/27 local government finance settlement and strengthen its arrangements to budget setting to address the financial gap, including ensuring reserves are sufficient, saving plans are robust, and services can be provided within available resources</p>	<p>In November 2025, Cabinet was informed of £10.5m overspend with potential opportunities were identified to reduce the net overspend to £8m. Savings are tracked, with the risk of non-delivery of £3.1m savings in 2025/26, which would still allow some 80% of planned be delivered.</p> <p>As with other local authorities, the Council was awaiting the outcome of the Fair Funding Review and will need to factor in any changes to its budget for 2026/27. As set out in the context page to our commentary on financial sustainability, the provisional settlement leads to an increase in spending power, which will go someway to addressing the underlying funding gap.</p> <p>We have considered the “One Hounslow Financial Strategy (OHFS) – 2026/27 Budget Proposals” presented to Overview &amp; Scrutiny Committee on 26 January 2026. This identified savings proposals of £26.1m plus a gain in funding of £21.3m, which reduces the identified gap in 2026/27 to £6.8m. This does however require the Council to deliver on its savings plans to stabilise its financial resilience.</p> <p><b>Management response</b></p> <p>The 2026/27 budget gap has been identified as £54.2m (which includes a £10m contribution to reserves). The recently published Overview and Scrutiny papers update the Committee on Council's performance against that gap. Savings proposals of £26.1m plus a Fair Funding Review net benefit of £21.3m will reduce that gap to £6.8m. It is unlikely that the £10m build-up of reserves will be likely in 2026/27 which serves to underline the need for all approved savings (Council on 3 March 2026) to be delivered in full and on time. Given the size of the savings target, the s151 officer has made the prudent decision to hold c£5m of the FFR as savings slippage contingency. Should savings be delivered - and with the certainty of a 3-year settlement that improves the Council's funding by c£60m by 2028/29 - there needs to be a strategy that allows Hounslow to rebuild its risk reserves and rebuild financial resilience over the medium-term. But this does hinge on the delivery of savings in 2026/27.</p>

Other reporting responsibilities

# Other reporting responsibilities

## Wider reporting responsibilities

### Matters we report by exception

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

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

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received correspondence but not accepted any formal objections.

## Reporting to the group auditor

### Whole of Government Accounts (WGA)

The National Audit Office (NAO), as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We have been unable to conclude our work as we have not yet received confirmation from the NAO that the group audit of the WGA has been completed and that no further work is required to be completed by us.

# Contact

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