Open Agenda

Audit, Governance and Standards Committee

Tuesday 8 September 2026
6.30 pm
Ground Floor Meeting Room G01A - 160 Tooley Street, London SE1 2QH

Membership	Reserves
Councillor Colin Boyle (Chair)	Councillor Andy Bates
Councillor Graham Neale (Vice-Chair)	Councillor Tori Griffiths
Councillor John Batteson	Councillor Francesco Guerrieri
Councillor Esmé Dobson	Councillor Renata Hamvas
Councillor Felix Hamer	Councillor Adam Hood
Councillor Richard Macmillan	Councillor Pascale Mitchell
Councillor James Moyse	Councillor Kath Whittam

INFORMATION FOR MEMBERS OF THE PUBLIC

Access to information

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Access

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Contact
Virginia Wynn-Jones on 020 7525 7055 or email: virginia.wynn-jones@southwark.gov.uk

Members of the committee are summoned to attend this meeting
Althea Loderick
Chief Executive
Date: 28 August 2026

PRINTED ON RECYCLED PAPER

Audit, Governance and Standards Committee

Tuesday 8 September 2026
6.30 pm
Ground Floor Meeting Room G01A - 160 Tooley Street, London SE1 2QH

Order of Business

Item No.	Title	Page No.

PART A - OPEN BUSINESS

The chair would like to remind members that prior to the meeting they have the opportunity to inform officers of particular areas of interest relating to reports on the agenda, in order for officers to undertake preparatory work to address matters that may arise during debate.

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. CONFIRMATION OF VOTING MEMBERS

A representative of each political group will confirm the voting members of the committee.

3. NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT

In special circumstances, an item of business may be added to an agenda within five clear days of the meeting.

4. DISCLOSURE OF INTERESTS AND DISPENSATIONS

Members to declare any personal interests and dispensation in respect of any item of business to be considered at this meeting.

5. MINUTES 1 - 5

To approve as a correct record the minutes of the open section of the meeting held on 13 July 2026.

Item No.	Title	Page No.
6.	**INTERNAL AUDIT, CORPORATE ANTI-FRAUD AND HOUSING INVESTIGATION TEAMS PROGRESS REPORT**	6 - 19
7.	**PROGRESS ON IMPLEMENTATION OF 2024-25 AUDIT RECOMMENDATIONS**	20 - 133
8.	**DRAFT STATEMENT OF ACCOUNTS 2025-26**	134 - 263
9.	**ANNUAL GOVERNANCE STATEMENT 2025-26**	264 - 308
10.	**OVERVIEW OF CORPORATE RISK MANAGEMENT PROCESS**	309 - 336
11.	**BUDGET PROCESS**	337 - 354
12.	**HOUSING REVENUE ACCOUNT GOVERNANCE AND FINANCIAL MONITORING**	355 - 362
13.	**SOUTHWARK360: UPDATE ON THE ENTERPRISE RESOURCE PLANNING (ERP) REPLACEMENT PROGRAMME**	363 - 375
14.	**REVIEW OF THE AUDIT, GOVERNANCE AND STANDARDS COMMITTEE TERMS OF REFERENCE**	376 - 384
15.	**IN YEAR REVIEW OF WORK PROGRAMME 2026-27: SEPTEMBER 2026**	385 - 393

ANY OTHER OPEN BUSINESS AS NOTIFIED AT THE START OF THE MEETING AND ACCEPTED BY THE CHAIR AS URGENT

EXCLUSION OF PRESS AND PUBLIC

The following motion should be moved, seconded and approved if the sub-committee wishes to exclude the press and public to deal with reports revealing exempt information:

"That the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 1-7, Access to Information Procedure rules of the Constitution."

PART B - CLOSED BUSINESS

Date: 28 August 2026

Agenda Item 5

Audit, Governance and Standards Committee

MINUTES of the OPEN section of the Audit, Governance and Standards Committee held on Monday 13 July 2026 at 6.30 pm at Ground Floor Meeting Room G01C - 160 Tooley Street, London SE1 2QH

PRESENT:
Councillor Colin Boyle (Chair)
Councillor Graham Neale
Councillor John Batteson
Councillor Esme Dobson
Councillor Felix Hamer
Councillor Renata Hamvas
Councillor Richard Macmillan

OFFICER SUPPORT:
Clive Palfreyman, strategic director of resources
John Scarborough, interim director of law and governance
Tim Jones, director of finance
Paul Rock, head of internal audit
Jason Martin, programme director, Southwark 360
Fleur Nieboer, KPMG
Kunal Malhotra, KPMG
Aaron Winter, BDO
Geraldine Chadwick, assistant director of finance (corporate)
Virginia Wynn-Jones, constitutional team

1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor James Moyse – Councillor Renata Hamvas was present as reserve; and from Angela Mason-Bell, BDO.

2. CONFIRMATION OF VOTING MEMBERS

The members present were confirmed as the voting members.

3. NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT

There were none.

4. DISCLOSURE OF INTERESTS AND DISPENSATIONS

There were none.

5. MINUTES

The minutes of the meeting of 3 February 2026 were agreed as a correct record.

6. CORPORATE ANTI-FRAUD TEAM AND SPECIAL INVESTIGATIONS TEAM YEAR END REPORT 2025-26

Officers introduced the report. Members had questions for the officers.

Officers undertook to bring back further details on the corporate anti-fraud team and the special investigations team to the next meeting, including:

- Types of right to buy fraud and details of prosecutions, including information on Crown prosecution test
- Information on the council's actions on tenancy fraud, including the council's overall strategy and approach, and potential risks, as well as information on Operation Silver
- Information on the costs of operations versus the value of detecting fraud and recovering losses.

RESOLVED:

1. That the audit, governance and standards committee noted the Corporate Anti-Fraud Team (CAFT) and the Special Investigations Team (SIT) Year End Report 2025-26.

7. SOUTHWARK360: SIX-MONTH PROGRESS UPDATE ON THE ENTERPRISE RESOURCE PLANNING (ERP) REPLACEMENT PROGRAMME

Officers introduced the report. Members had questions for the officers.

Officers undertook to bring back the benefits register for the Southwark360 update to the next meeting.

Officers undertook to include further information on key milestones, risks and mitigations, and confirmation of any material changes for the update to the next meeting.

RESOLVED:

1. That the Audit, Governance and Standards Committee noted the six-month progress update on delivery of the Southwark360 Programme for replacement of the council's Enterprise Resource Planning system, including progress since the previous report presented in November 2025.

8. EXTERNAL AUDIT PLAN - SOUTHWARK COUNCIL & PENSION FUND

Officers introduced the report. Members had questions for the officers.

RESOLVED:

1. That the Audit, Governance and Standards committee:

    a. Noted the Southwark Council External Audit plan attached at Appendix A of the report, setting out planned audit scope, risk assessment and approach for the year ending 31 March 2026.

    b. Noted the External Audit plan for 2025-26 for the Pension Fund attached at Appendix B of the report.

9. INTERNAL AUDIT PROGRESS REPORT FOR 2025-26

Officers introduced the report. Members had questions for the officers.

Officers undertook to invite the director of adult social care to the next meeting to discuss the outcomes of two internal audit reports.

RESOLVED:

1. That the audit, governance and standards committee noted the update reports, as attached at Appendix A, including appendices 1, 2 and 3 of the report.

10. INTERNAL AUDIT - ANNUAL REPORT & OPINION 2025-26

Officers introduced the report.

RESOLVED:

1. That the audit, governance and standards committee note the update reports, as attached at Appendix A.

11. INTERNAL AUDIT RISK-BASED PLAN, STRATEGY, CHARTER AND MANDATE

Officers introduced the report. Members had questions for the officers.

RESOLVED:

1. That the Audit, Governance and Standards Committee approved:

    a) the Internal Audit Plan for 2026/27 (Appendix 1 of the report)
    b) the three-year Internal Audit Strategy (Appendix 3 of the report); and
    c) the Internal Audit Charter and Mandate (Appendix 4 of the report).

12. DRAFT ANNUAL GOVERNANCE STATEMENT 2025-26

Officers introduced the report. Members had questions for the officers.

Officers undertook to ensure:

1. That the Annual Governance Statement 2026-27 be updated to reflect a fuller description of the council's commercial governance arrangements once the revised procurement framework, and associated operating arrangements have become more embedded and are able to demonstrate delivery and outcomes.

2. That the Annual Governance Statement 2026-27 be updated to reflect the programme of the Administration elected in May 2026, including but not limited to the prioritisation of community resilience and adaptation in response to the increasing severity of climate change impacts on the borough.

It was moved, seconded, and

RESOLVED:

That the audit, governance and standards committee:

1. note the draft Annual Governance Statement (AGS) 2025-26 as attached at Appendix A of the report.

2. agree that the Annual Governance Statement 2025-26 be updated to reflect the role of anchor institutions through the anchor network.

13. COMPLIANCE WITH CIPFA FINANCIAL MANAGEMENT CODE

Officers introduced the report. Members had questions for the officers.

RESOLVED:

1. That the Audit, Governance and Standards Committee note the report.

14. FORMATION OF AUDIT, GOVERNANCE AND STANDARDS SUB-COMMITTEES FOR 2026-27

Officers introduced the report. Members had questions for the officers.

RESOLVED:

1. That the committee established a sub-committee to consider complaints of misconduct against elected councillors and co-opted members (the audit, governance and standards (standards) sub-committee).

2. That the committee appointed Councillors Colin Boyle, Esme Dobson and Graham Neale to form the audit, governance and standards (standards) sub-committee.

3. That the committee appointed Councillor Colin Boyle as chair of the sub-committee.

4. That the committee established a sub-committee to consider civic awards (the audit, governance and standards (civic awards) sub-committee).

5. That the committee appointed Councillors John Batteson, Esme Dobson, Pascale Mitchell, and Graham Neale to form the audit, governance and standards (civic awards) sub-committee.

6. That the committee appointed a chair of the sub-committee.

There was one contested position.

The position of chair of the audit, governance and standards (civic awards) sub-committee was put to the vote, and it was agreed that Councillor Pascale Mitchell be appointed chair of the audit, governance and standards (civic awards) sub-committee.

15. IN YEAR REVIEW OF WORK PROGRAMME 2026-27: JULY 2026

Officers introduced the report. Members had questions for the officers.

RESOLVED:

1. That the audit, governance and standards committee noted the proposed work programme for 2026-27, with the following amendments:

    a. The inclusion in the scheduled report of the corporate anti-fraud team and special investigations team noted in item 6
    b. The inclusion in the scheduled report on Southwark360 noted in item 7
    c. The inclusion in September of the attendance of the director of adult social care noted in item 9
    d. A new item on the governance structures and risk management around the changes to the budget setting process used for 2027-28, to be taken in September.

Meeting ended at 8.25pm

CHAIR:

DATED:

Agenda Item 6

Meeting Name:	Audit, Governance and Standards Committee
Date:	8 September 2026
Report title:	Internal Audit, Corporate Anti-Fraud and Housing Investigation Teams Progress Report
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	Not applicable
From:	Timothy Jones, Director of Corporate Finance

RECOMMENDATION

1. That the Audit, Governance and Standards Committee note:

   a. the progress made with the Internal Audit Plan for 2026/27;
   b. the progress made with implementing actions arising from limited assurance reports in Adult Social Care and Integrated Commissioning.
   c. the overview and performance of the Corporate Anti-Fraud and Housing Investigation Teams.

BACKGROUND INFORMATION

2. The requirements for internal audit activities are set out in the Accounts and Audit Regulations 2025, which state that a relevant authority must ensure that it has a sound system of internal control which:

   - facilitates the effective exercise of its functions and the achievement of its aims and objectives;
   - ensures that the financial and operational management of the authority is effective; and
   - includes effective arrangements for the management of risk.

3. The Audit, Governance and Standards Committee has responsibility for oversight of the Council's arrangements for governance, risk management and internal control, including anti-fraud arrangements, and this report assists the Committee in discharging its responsibilities.

KEY ISSUES FOR CONSIDERATION

Internal Audit Plan 2026/27

4. The Internal Audit plan for 2026/27 was approved by the Committee in July 2026. The Internal Audit Plan was developed using a risk-based approach to provide assurance over the Council's governance, risk management and control arrangements. The plan also recognised that the Internal Audit service is being delivered through new shared service arrangements with Lambeth

Council and that additional resourcing would be required to support delivery of the approved programme.

5. This is the first progress report presented following approval of the 2026/27 Internal Audit Plan.

6. Since approval of the plan, activity has focused on establishing the foundations necessary to support delivery of the audit programme and strengthening Internal Audit capacity. Progress to date includes:

   - Agreement of the school audit programme to be completed during 2026/27.
   - Agreement of the Tenancy Management Organisations (TMOs) to be included within the audit programme.
   - Commencement of recruitment activity to establish the approved Internal Audit staffing structure.
   - Appointment of an additional member of Internal Audit staff.
   - Introduction of new audit management software for Southwark.
   - Commencement of procurement activity to secure external support to supplement Internal Audit resources and provide additional delivery capacity.

7. A number of audit assignments are currently in the planning phase. However, at the date of this report, no reviews have yet progressed to draft report stage.

8. Consequently, overall delivery against the annual audit plan is currently behind the profile originally anticipated.

Internal Audit Resources

9. At present, the Internal Audit service is operating with limited permanent resource capacity. Recruitment activity is underway and one additional member of staff has now joined the service.

10. In parallel, the Council is progressing procurement of an external provider to support delivery of the annual audit programme and provide access to specialist audit skills where required.

11. While these actions are expected to strengthen delivery capacity, there remains a risk that delays in recruitment or procurement could affect the timing of individual audits and may require the annual plan to be re-profiled during the year.

12. The Head of Internal Audit will continue to monitor resource capacity and will report any significant implications for assurance coverage to the Committee.

Planned Activity for the Next Reporting Period

13. The key priorities for the next reporting period are:

   - Completion of ongoing recruitment activity.
   - Award of the contract for external audit support.

- Commencement of fieldwork on the first tranche of audit reviews.
- Consider a revised delivery profile for the remainder of 2026/27 based on confirmed resource availability.
- Reporting of the first audit outcomes to the Committee where reviews have reached completion.

Conclusion

14. The Internal Audit service is currently in mobilisation phase as part of the implementation of the new shared service arrangements.

15. Although progress against individual audit assignments is limited at this stage (as is usual at this point in the cycle), progress has been made in establishing the arrangements necessary to support sustainable delivery of the audit programme.

16. Progress has been made in establishing the foundations required to deliver the service, including agreement of the school and TMO audit programmes, commencement of recruitment activity and progression of procurement arrangements for external audit support.

17. The Head of Internal Audit will continue to monitor progress and resource capacity and will provide a further update to the Committee at its next meeting, including any recommended amendments to the approved audit plan should these be necessary.

Management Update on Internal Audits of Nursing and Residential Care and Waiting Lists for Older People and People with Disabilities

18. At the July committee, members asked that management attend the next committee meeting to provide an update on the recommendations arising from the internal audits of Nursing and Residential Care and waiting list management for Older People and People with Disabilities (OPPD), both of which received limited assurance.

19. In response, management have provided updates on progress with the agreed management actions (see Appendix 1) and will be attending the committee to answer any questions the Committee may have.

Corporate Anti-Fraud Team

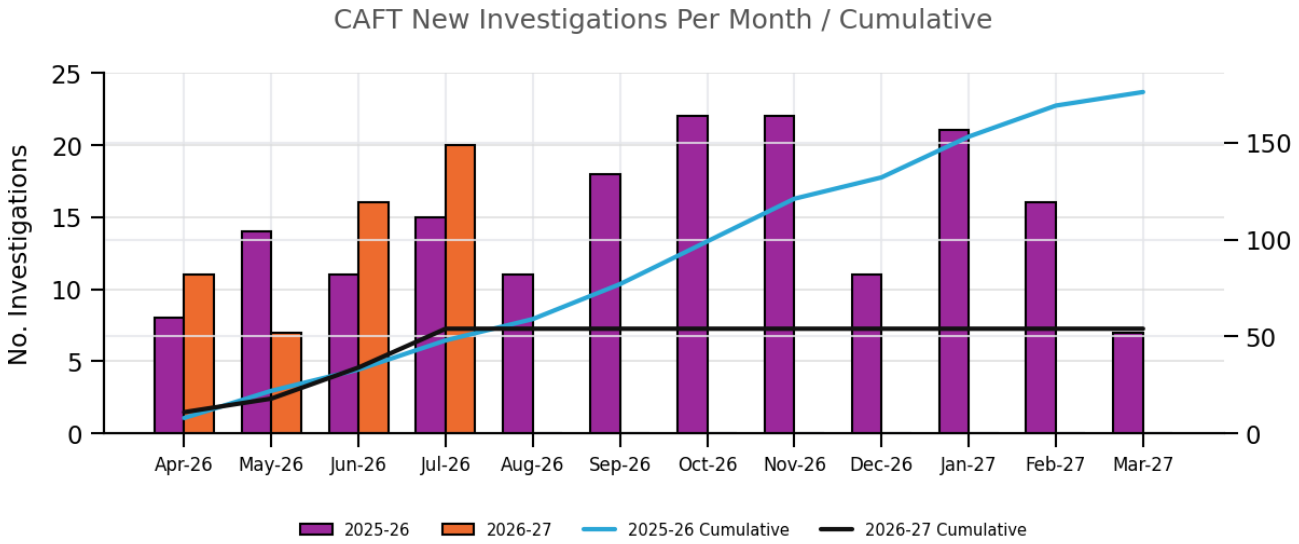
20. The Corporate Anti-Fraud Team (CAFT) provides the Council's principal corporate counter-fraud function, supporting the prevention, detection, investigation and deterrence of fraud, corruption, financial irregularity and related misconduct across Council services. CAFT's remit includes employee fraud, contractor and procurement fraud, corruption allegations, fraud intelligence development, National Fraud Initiative (NFI) oversight, fraud awareness activity and financial crime matters. In addition, the team provides enhanced assurance reviews of high-value Non-Domestic Rates (NNDR) refund applications to strengthen protection of public funds.

21. During the period 1 April 2026 to 28 July 2026, CAFT opened 54 new investigations, closed 58 investigations and had 73 active cases at the

reporting date. This demonstrates a continuing level of investigative activity across a broad range of services and fraud risk areas.

22. The volume of new investigations has remained relatively consistent throughout the reporting period and reflects ongoing referral activity from across the Council. Chart 1 illustrates monthly investigation volumes and cumulative activity, providing Members with an overview of demand for CAFT services and investigative workload trends, as well as comparison to the previous year.

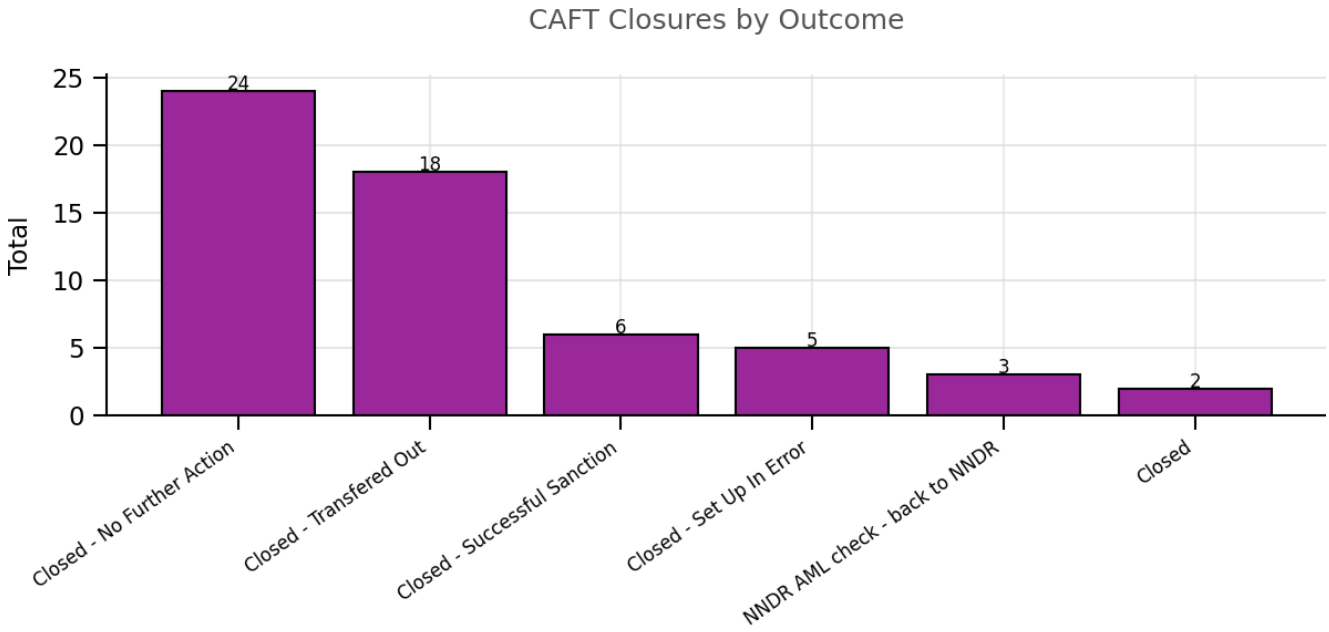
Chart 1



23. It is important to recognise that the identification and investigation of suspected fraud should be viewed positively. Effective counter-fraud arrangements are designed to detect potential fraud, irregularity and misuse of public funds that might otherwise remain undiscovered. Consequently, a proportion of reported and detected fraud cases are an indication that controls, intelligence activity, referral mechanisms and investigative resources are operating effectively. Conversely, low levels of detected fraud do not necessarily indicate low levels of fraud risk and may instead reflect limited detection capability. The Council's approach is therefore focused on proactively identifying, investigating and addressing fraud risks to protect the council, strengthen governance and deter future wrongdoing.

24. Chart 2 (below) illustrates the outcomes recorded for investigations concluded during the reporting period. The largest proportion of cases were closed following assessment where no further action was considered appropriate or were transferred to alternative services better placed to deal with the issues identified. This demonstrates the importance of effective triage and proportionate investigation activity. The chart also shows that several cases resulted in successful sanctions or other interventions where sufficient evidence was identified. Overall, the outcome profile provides assurance that referrals are being reviewed, risk assessed and progressed through appropriate routes rather than remaining unresolved.

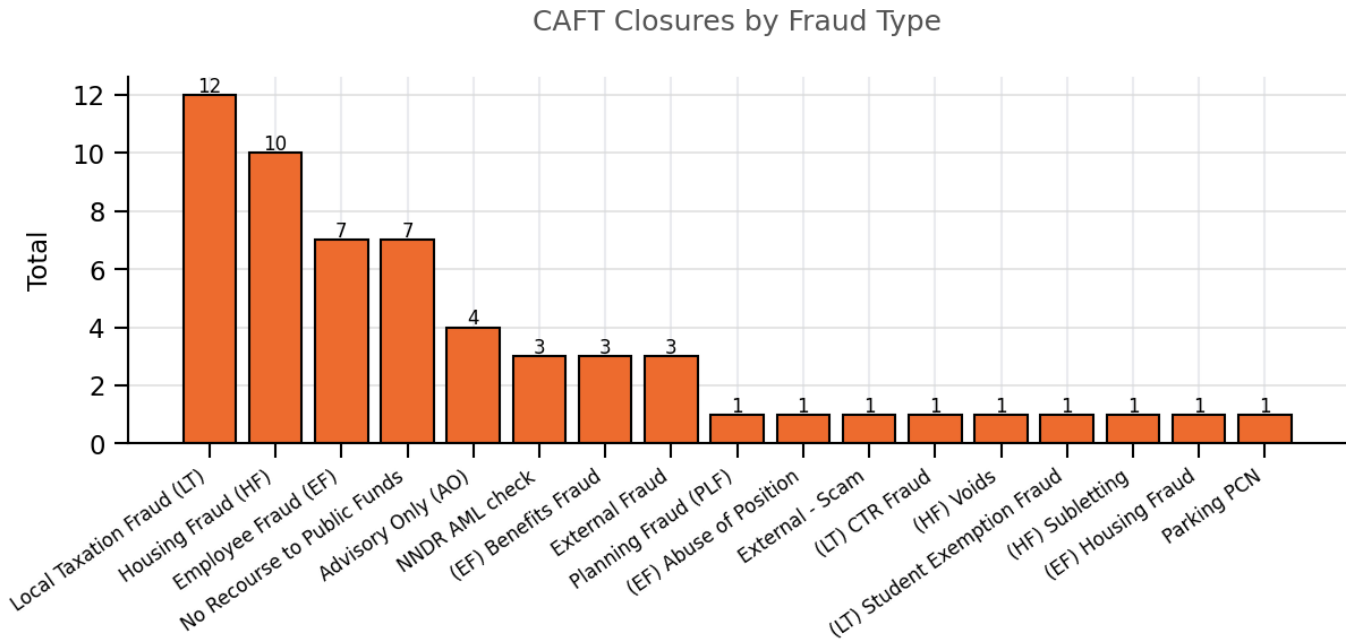
Chart 2



25. A small number of cases were closed after being created in error. These primarily related to duplicate case creation or administrative processing errors identified at an early stage. No investigative activity was lost as a result and the cases were closed promptly once identified.

26. The profile of completed investigations demonstrates the breadth of fraud risks addressed by the team. As shown in Chart 3. the highest volume of completed cases related to Local Taxation Fraud, Housing Fraud, Employee Fraud and No Recourse to Public Funds matters. These categories represent areas where the Council continues to experience fraud risk exposure and where investigative resources have been focused during the reporting period.

Chart 3



27. In addition to investigation activity, CAFT continues to oversee the Council's participation in the Cabinet Office's National Fraud Initiative. The National Fraud Initiative is a Cabinet Office-led data matching exercise that identifies anomalies requiring review by participating bodies. Our reviews have identified most matches are errors (443) with only 2 matches identifying potential fraud that required further investigation. As the data matching is designed to identify anomalies that might indicate fraud, we expect most matches be resolved with a simple data correction; this is normal for the exercise and significant savings can still arise even where fraud is not ultimately proven. The reported recoveries and savings totalled £330,000 contributing to an estimated overall financial benefit exceeding £1 million.

28. The team has also continued to deliver preventative counter-fraud work, including fraud awareness, advice and guidance, intelligence development and enhanced assurance reviews of NNDR refunds exceeding £100,000. This preventative activity is intended to reduce opportunities for fraud and strengthen controls before losses occur.

29. Overall, the level of activity reported demonstrates both continuing demand for counter-fraud services and the importance of maintaining a proactive and intelligence-led approach to protecting Council resources, assets and reputation.

Housing Investigations Team

30. The Housing Investigations Team (HIT) (formerly the Special Investigations Team) falls under the Council's Fraud Prosecution Policy with the following remit:

> "The special investigation team will investigate 'housing tenancy fraud' in respect of the housing stock owned and managed by the council and other social housing where legislation directs that a local authority has specific responsibility. This includes cases of unlawful subletting, non-occupation, succession, assignment, mutual exchange, right to buy and housing register application fraud, unless otherwise agreed."

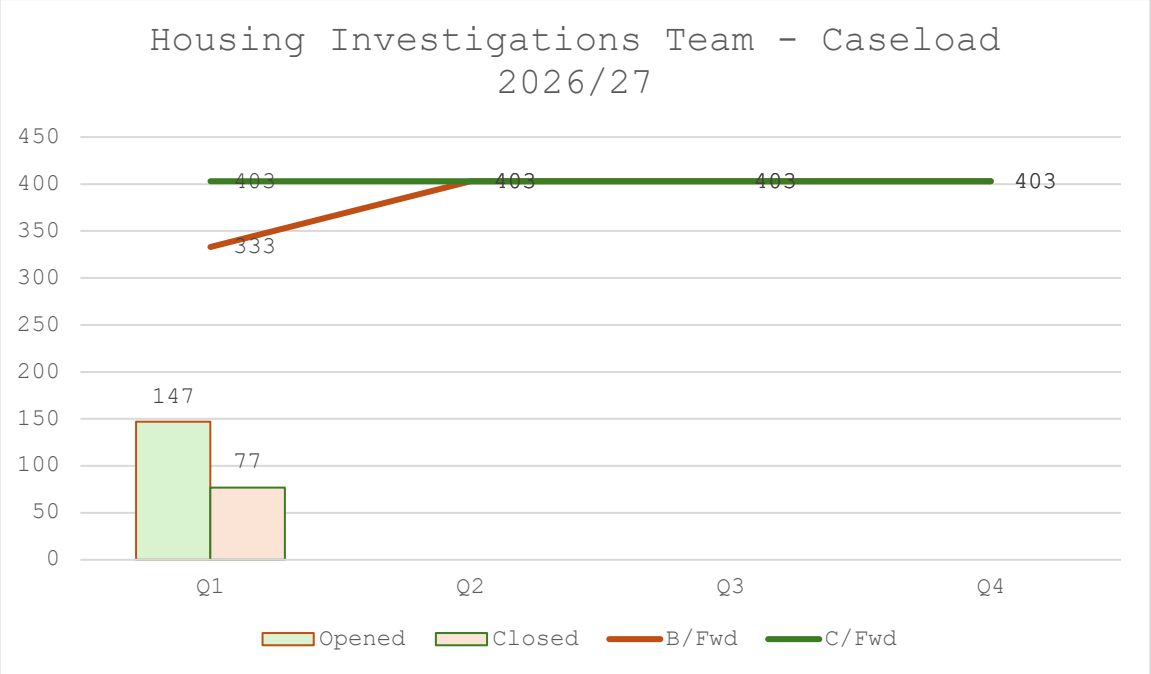
31. HIT is based within the Accommodation and Support Business Unit which is situated within the new Housing Needs and Support directorate. The team operates reactively (referrals being made to the team) and proactively (including the tenancy side of the National Fraud Initiative data matching and other proactive data matching) to prevent and detect tenancy fraud. HIT receive referrals from both internal and external sources. Reports can be made direct to the team via a dedicated email or via a dedicated portal on the Council's website.

32. In addition to the investigation of allegations of alleged tenancy fraud HIT also verify all, qualifying, applications to assign or succeed to a secure tenancy to prevent tenancy fraud. HIT will conduct enhanced verification checks and make appropriate recommendations to Landlord Services. Where a recommendation is made to deny an application, it is anticipated that the property will be recovered via Landlord Services where it is appropriate to do so.

33. During 2025/26 a comprehensive review of service provision was undertaken alongside day-to-day work which identified several service and efficiency improvements. As part of this review an updated process for Landlord Services to refer potential tenancy fraud was introduced in April 2026. Improvements were made to team processes to move to a more risk based, and intelligence led, approach to investigations. This will provide additional support to Landlord Services whilst at the same time improving the quality of investigations undertaken by the team.

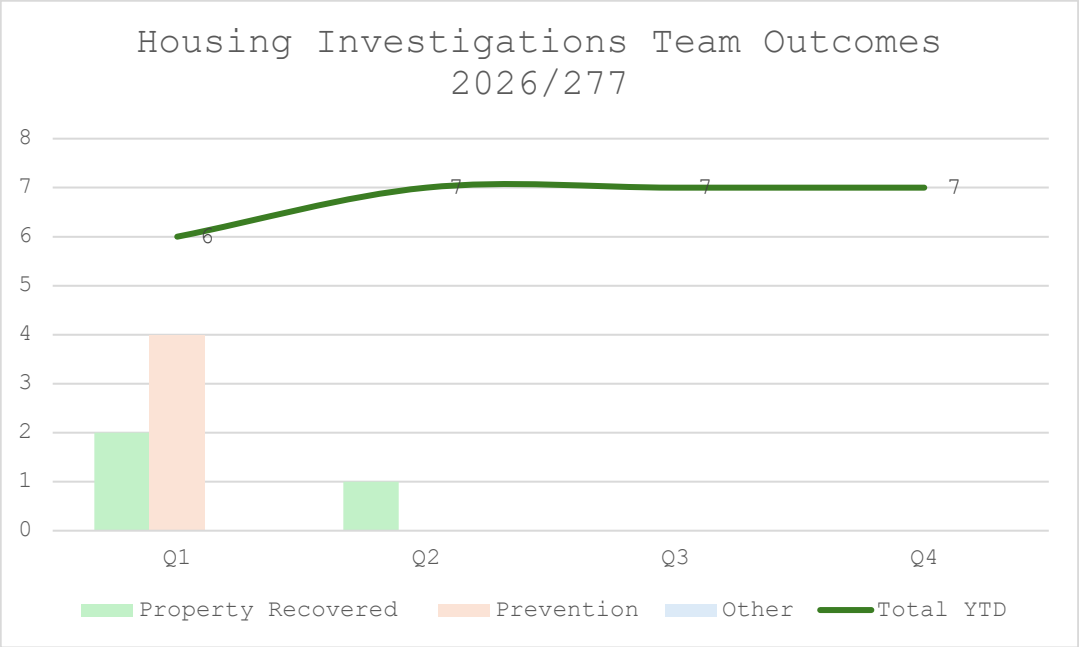
34. Caseload of active investigations and verifications for HIT is shown in the chart 4 below. While the team continues to receive a significant volume of referrals, the current caseload remains broadly stable. The introduction of a more risk-based approach has enabled resources to be focused on cases with the greatest likelihood of tenancy recovery or fraud prevention

Chart 4



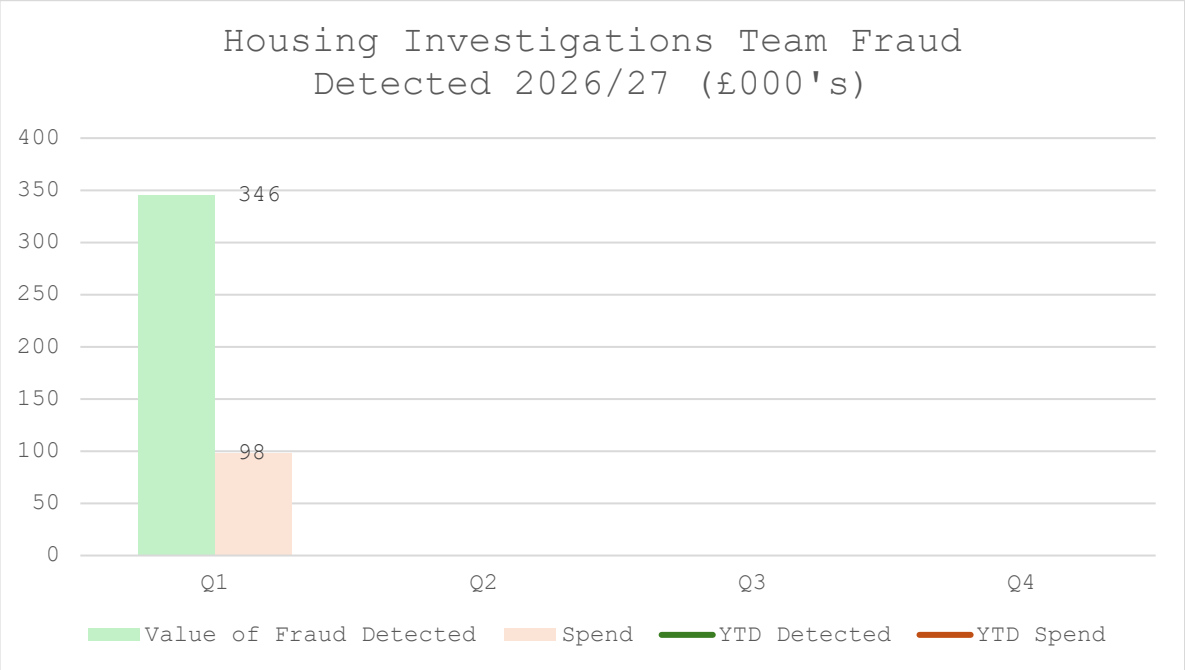
35. The outcomes of HIT investigations and case work will be both the recovery of properties and the prevention of fraud. Outcomes for 2026/27 to date are shown in chart 5 on the following page.

Chart 5



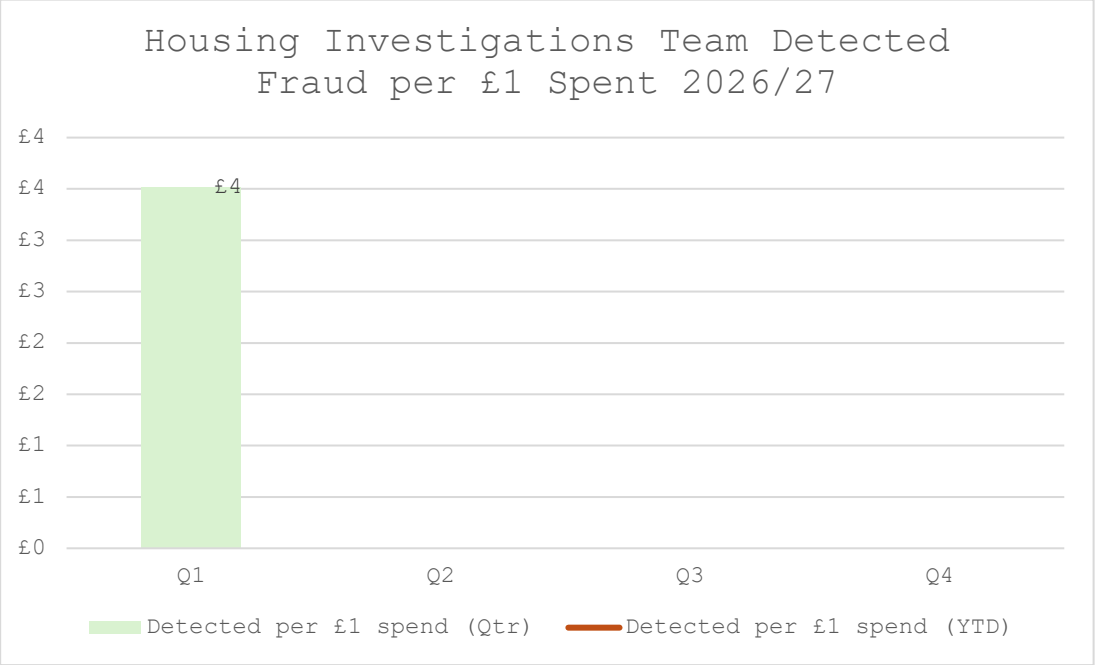
36. The value of fraud detected by HIT is shown in Chart 6 below with comparable information on the total budget spend to date on service delivery. The value of fraud detected during the period was £346,000.

Chart 6



37. The work of HIT represents value for money; the value of fraud detected for each £1 spent on service provision is shown in Chart 7 below:

Chart 7



Policy framework implications

38. The provision of effective internal audit and anti-fraud services supports the delivery of the council's plans by strengthening governance, risk management and internal control arrangements across the Council. By providing independent assurance and insight, internal audit helps to support informed decision making, financial resilience and accountability, all of which underpin the council's ability to deliver its priorities and outcomes.

Community, equalities (including socio-economic) and health impacts

Community impact statement

39. This report and the accompanying appendices do not have a direct impact on local people and communities. However, good governance, risk management and internal control arrangements are important to the delivery of local services and to the achievement of outcomes.

Equalities (including socio-economic) impact statement

40. This report is not considered to contain any proposals that would have a significant equalities impact.

Health impact statement

41. There are no direct health impacts associated with this report. Indirectly, effective internal audit contributes to the robustness of governance and risk management arrangements, which support the safe and effective delivery of council services, including those that have a bearing on the health and wellbeing of residents.

Climate change implications

42. There are no material climate change implications.

Resource implications

43. There are direct resource implications arising from this report, including fees for internal audit services, which will be met from existing budget provision.

Consultation

44. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

45. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
1	Management Update on Nursing and Residential Care and Waiting Lists for Older People and People with Disabilities

AUDIT TRAIL

Lead Officer	Timothy Jones, Director of Finance		
Report Author	Paul Rock, Head of Internal Audit		
Version	Final		
Dated	19 August 2026		
Key Decision?	No		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER			
Officer Title		**Comments Sought**	**Comments Included**
Director of Law and Governance		No	N/A
Strategic Director of Resources		Yes	Yes
Executive Member		No	N/A
Date final report sent to Constitutional Team			19 August 2026

Management Update on Limited Assurance - Older People and Physical Disabilities Waiting Lists

Background

Older People and Physical Disabilities services have experienced sustained growth in demand, alongside an increase in the complexity of referrals. This pressure has been compounded by an ageing population and the rising prevalence of dementia, frailty, multiple long-term conditions and physical disability, with more people requiring coordinated support to remain safe and independent. The service is aware of these pressures and has an established action plan to strengthen waiting-list oversight, improve performance reporting and quality assurance, make better use of automation, and review capacity and resources to support a more sustainable response. At the same time, increases in the cost of care have created significant budgetary pressures, meaning that no additional resources are available to meet the growth in demand. The service is therefore focusing on modernising its operating model and using technology and automation to enhance service delivery, improve efficiency and make best use of existing capacity.

Summary

It is positive to see the areas of strength identified by the recent BDO audit, including clear procedural guidance, consistent referral screening and triage, accurate case records, effective oversight arrangements and robust workforce assurance. The services were already aware of the weaknesses identified and had measures in train to address the underlying capacity pressures, including improved waiting-list oversight, greater use of automation and technology, and strengthened performance reporting. However, a major upgrade to Mosaic, the service's case management system, has delayed the implementation of some of these measures. Alongside these immediate actions, the service is undertaking a wider review of its operating model and considering organisational changes to distribute workloads more evenly across teams, make best use of available capacity and reduce delays for people awaiting support.

Risk Area	Risk Level	Summary of Issue Identified	Proposed Management Actions	Responsible Officer	Target Completion Date	Management Action Plan
Referrals: Lack of clear prioritisation, triage, and risk monitoring; Poor quality data and record keeping	High	Internal Occupational Therapy audits of waiting list were considered inconsistent and not sufficiently documented. The audit identified cases not removed from waiting lists when a service was no longer needed.	1. Implement regular, risk-based audits and fully document in Mosaic. 2. Review and remove cases no longer requiring assessment.	1a. Keith Clark 1b. Keith Clark 1c. Kathryn Simpson	1a. Aug 2026 1b. Aug 2026 1c. Completed May 2026	Develop automated audit process (RPA) for regular reviews and documentation – testing week commencing 24 August. Interim CSO oversight in place.
Reporting: Non-compliance with legal and regulatory requirements	High	A need for the OT team to complete monthly waiting list reporting; A&I reporting to include more detail (e.g., average waiting times, breakdowns) and where appropriate, escalation to Senior Management.	1. Standardise monthly reporting across all teams, including OT. 2. Expand dashboard metrics and ensure monthly performance reporting.	2a. Keith Clark/Neil McCarthy 2b. Kathryn Simpson	2a. Aug 2026 2b. Oct 2026	Regular performance meetings in place since May 2026. Development of dashboards aligned to reporting expectations. Once developed these will ensure monthly visibility of caseload pressures and risks.
Contact Referrals: Delayed assessments and service provision	Medium	Delays in referral processes due to capacity issues, backlogs, and staff absence; some cases held in triage or allocation pending further information.	1. Review team capacity and resources. 2. Conduct quarterly reporting and quality checks on sample cases; deliver refresher training as needed.	3a. Keith Clark / Kathryn Simpson 3b. Keith Clark / Rachel Irvine	3a. Complete 3b. Ongoing	Referrals are triaged by priority; online referral processes and RPA now in place and will be expanded on. Review of operating model has led to recommended organisational changes that are currently going through governance. Maintain formal and informal audit arrangements; extend RPA to Contact Team for automated auditing.
Procedure documentation	Low	Process documents lack version control and regular review cycles; some documents outdated or not aligned with current practice.	Update all process documents to include version control and establish regular review cycles; assign ownership and centralize documentation.	Keith Clark	Complete	All process documents have been updated and the service has now transitioned to in-house policy management solution with robust version control. Service development officer post pending recruitment.

Management Update on Limited Assurance - Nursing and Residential Care

Risk area	Risk Level	Summary of issue identified	Proposed management actions	Responsible Officer	Target Completion Date
Over-reliance on spot purchasing and use of non-compliant providers:	High	The audit correctly identifies a high number of spot placements but in using the phrase "non-compliant" is conflating to separate issue. The residential care charter was designed to be applied to commissioned services and not to all services. To attempt to apply the charter to spot placements, largely outside the borough is not what was originally intended and would risk disrupting the market. For example, creating two tiers of T&C for staff across the same organisation and potentially different fee levels for residents to accommodate the additional costs of implementing the charter. The committee are asked to note that spot purchased providers are checked for compliance, for example with regulatory requirements.	The Procurement and Third Party Spend review has prioritised out of borough spot placements for nursing and residential care and approaches to this are being developed. Due to limited in borough capacity negotiated arrangements will need to be developed over time and will focus on overall cost reduction rather than increasing the numbers of RCC compliant providers.	Director Integrated Commissioning Director of Commercial Partnership	Dec 2026 to finalise approach
Absence of a strategic commissioning framework to support Charter delivery:	Medium	The audit correctly identifies that there is not commissioning framework to move to more block arrangements though the Committee should note we have maximised the block arrangements with providers in contract.	The work outlined above will develop a framework for negotiating costs for spot placements though this may not reduce costs which are driven by market pressures.	Director Integrated Commissioning Director of Commercial Partnership	Dec 2026 to finalise approach
Workforce training non-compliance:	Low	The audit identified overdue statutory and regulatory training in two providers. The council contracts and quality team check training records when completing monitoring visits and have noted similar concerns.	The councils' contracts and quality team will continue to check training records as part of their regular planned activity. This part of wider work to assure workforce competency and care safety and any findings that raised concerns about care safety would be escalated to Directors using our Provider Concerns Process.	Director of Integrated Commissioning	On-going
Operational monitoring:	Low	The audit identified some gaps in monitoring coverage though it should be noted that in some cases, for example fire safety, the	The Contracts and Quality Team will continue to build its monitoring approach and implement the audit recommendations to ensure findings	Assistant Director Quality,	Dec 2026

		responsibility may sit with the building owner and not the commissioned provider being monitored.	are translated into defined risk with time bound actions.	Performance and Transformation	
Weaknesses in placement oversight and statutory compliance:	Medium	The audit identified one urgent safeguarding case where the person had been made safe prior to the assessment being completed. This instance is rare. Other cases were identified where the initial placement review was completed outside the timeframe of placement reviews.	OPPD has recently completed a review of our operating model that has led to recommended organisational changes that are currently going through governance. These changes will ensure there is one team that has oversight of placements and ensure all work is completed In addition, OPPD will work with our Performance team to develop dashboard to facilitate that oversight.	Assistant Director for Older People and Physical Disabilities Head of placements / TDS	April 2027
Fees and uplifts for spot placements, and cost monitoring:	High	The audit identifies that decisions on fees and uplifts for spot placements sits with placement coordinators who do not always have the range of information and tools required. The Annual Price Review process managed by Commissioning looks at costs overall and makes recommendations but does not look at cost elements which is identified in the audit report. There are also recommendations in relation to recordings of costs in the Mosaic case management system.	Commissioning and adults social care to work to develop a framework for cost elements which can be updated and benchmarked annually and used as a guide for placement coordinators. Placements team to work with Technology Digital Services to assess if recording can be standardised in a way that makes it easier to report without creating additional administrative burdens.	Director of Commissioning Director of Adults Social Care Head of placements / TDS	For 2-27-28 APR Dec 2026
Limited proactive monitoring of provider financial resilience:	Medium	The audit correctly identifies that provider financial resilience is reviewed at procurement stage and there is no systemic process for further reviews The Strategic Contacts and Quality Review Board holds a provider and market risk register which is reviewed bi-monthly, but it is unfortunately a feature of the market that we are often unaware a provider is in financial distress until it is too late as for commercial reasons, they will be unwilling to be open.	Introducing annual checks, for example through Dunn and Bradstreet would go some way to addressing this risk but would only be practical for commissioned providers and has limited value given the long lag between financial years and published accounts. For our larger providers we have quarterly strategic meetings and finance is a standing item which can be expanded to request open discussion on organisations financial resilience	Director of Commissioning	Sept 2026

Agenda Item 7

Meeting Name:	Audit, Governance and Standards committee
Date:	8 September 2026
Report title:	Progress on Implementation of 2024-25 Audit Recommendations
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	n/a

RECOMMENDATION

1. That the committee notes the progress on implementation of recommendations made by the external auditors, KPMG, in their annual reports for the 2024-25 Statement of Accounts and Pension Fund (Appendix A). Specific actions recorded against itemised recommendations are set out in Appendix B.

BACKGROUND INFORMATION

2. The 2024-25 audited statement of accounts were signed off on 18 December 2025 and the conclusion was an unqualified audit opinion. Southwark Council has done well in achieving successive unqualified audit opinions in the context of well-documented delays to local authority accounts' publication and audits. The deadline for completing all Council audits was 27 February 2026.

3. The auditor recommendations for Southwark Council are contained in the Auditor's (2024-25) Year-End Report [YER], their Annual Audit Report [AAR] and their Pension Fund Audit Report [PF]. Only the outstanding or not implemented recommendations are summarised in Appendix B with updated comments on progress from the relevant officer.

4. A RAG indicator has been applied to these recommendations, where amber is used to indicate those that are taking longer to implement and green means the recommendation is either enacted, almost enacted or no longer relevant, from the viewpoint of officers. Whether the status is labelled as "outstanding", "implemented", "not implemented" or "closed" stems from the audit report in question and has been left unchanged. Only the auditor can conclude upon the status of a recommendation and KPMG will do so in their next audit report.

KEY ISSUES FOR CONSIDERATION

5. There were 34 recommendations in total across all reports and 20 have been marked as completed by KPMG and 14 as outstanding, 6 prior year and 8 current year items, as can be seen in the table below. They can all be found in the audit reports in Appendix A. The few remaining control deficiencies will be addressed by the SAP360 Project (i.e. SAP training and journal

authorisations); and the recommendations pertaining to valuations (Beacons and review procedures) have now been addressed.

	Prior Years		2024/25	
Report	**Completed/ Closed**	**Outstanding**	**Completed/ Closed**	**Outstanding**
Value for Money	7	4	0	4
Statement of Accounts (ISA260) (Southwark)	10	0	0	4
Statement of Accounts (ISA260) (Pension Fund)	3	2	0	0
Total	**20**	**6**	**0**	**8**

6. Of the outstanding VfM audit recommendations, three relate to Housing matters arising from previous years: RSH, TMOs and Major Works. Good progress has been made against each of these areas. The remaining outstanding recommendations have now been addressed by officers, as set out in the progress comments in Appendix B, and do not give rise to any further concerns at this stage.

7. From the Pension Fund audit, the only recommendations are in relation to prior years, one of which (journal authorisations) will be addressed by the SAP360 project and the other one - improved membership reconciliations against payroll records - is now being undertaken on a regular basis. There are no further recommendations outstanding.

Policy framework implications

8. There are no direct policy framework implications in this report.

Community impact statement

9. This report and the accompanying appendices are not considered to have a direct impact on local people and communities. However, good financial management and reporting arrangements are important to the delivery of local services and to the achievement of outcome.

Equalities (including socio-economic) impact statement

10. This report is not considered to contain any proposals that would have a significant equalities impact.

Health impact statement

11. This report is not considered to contain any proposals that would have a significant health impact.

Climate change implications

12. This report is not considered to contain any proposals that would have a significant impact on climate change.

Resource implications

13. There are no direct resource implications in this report.

Financial implications

14. This report is financial in nature but does not give rise to any additional direct costs.

Legal Implications

15. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1972, part 2 of the Audit Commission Act 1998 and regulations made there under.

Consultation

16. Consultation on the draft unaudited statement of accounts is carried out through formal public inspection. The annual accounts are available for public inspection for 30 working days starting in early July every year.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

17. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Department of Resources files	Resources Department, Second Floor, Tooley Street	Anthony Wainwright, anthony.wainwright@southwark.gov.uk

APPENDICES

No.	Title
Appendix A	2024-25 Auditor's Annual Report for LBS (AAR)
Appendix A	2024-25 Year-End Report (YER)
Appendix A	2024-25 Pension Fund Year-End Audit Report (PF)
Appendix B	Progress Tracker for 24-25 Audit Recommendations

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Anthony Wainwright, Senior Finance Manager	
Version	Final	
Dated	20 August 2026	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Democracy	N/A	N/A
Strategic Director, Resources	Yes	N/A
Executive Member	N/A	N/A
Date final report sent to Constitutional Team		25 August 2026

Reference	Report	Audit	Area	Topic	Page	Year	Description	Status	Officer update for Sep 2026 Meeting	RAG Rating for Further Actions
1	AAR	VFM	Risk	RSH Findings	24	24/25	The Council has taken action to respond to the RSH's findings. One of the most pressing actions is in relation to stock condition, due to the risk that there is a material backlog of repair works required to bring homes to a decent standard. The Council has recently commissioned the survey, and has received some feedback on a trial basis, however is still some way from having a complete picture of the condition of its stock As there is better visibility of the prioritised remediation plans, the likely cost impact on the HRA to remediate and on the Council to address the any repairs backlog identified, this should be communicated through the governance process so that there is a clear understanding of the risk exposure, the associated financial implications and the mitigations required. The Council's plans should also include details of the expected timeline to achieve an improved RSH inspection outcome	Outstanding	The Council has made significant progress in addressing the Regulator for Social Housing (RSH) findings through the implementation of a comprehensive four-year Stock Condition Survey programme. By March 2026, surveys had been completed in 7,855 council homes, representing over 20% of the housing stock within the first six months of the programme and exceeding the initial target. This forms part of the largest stock condition survey undertaken by a local authority, covering approximately 38,000 council homes, blocks, estates and engineering assets across the borough. The programme has already provided a substantially improved understanding of asset condition and has enabled the early identification of serious hazards, risks and investment requirements. Alongside the survey programme, the Council has introduced a new asset management system and established a dedicated asset management function, creating a single, reliable source of information to support future investment decisions and compliance management. In parallel, the Council has strengthened its compliance position across key landlord safety responsibilities. As at June 2026, compliance levels were at or near 100% for asbestos management, communal electrical inspections, communal gas safety, water hygiene, passenger lift servicing and carbon monoxide alarms. Significant progress has also been made in domestic electrical safety and smoke alarm compliance, although access to some properties remains a challenge that continues to be actively managed. The Council therefore now has considerably greater visibility of the condition of its housing stock than at the time of the RSH inspection and will continue the survey programme to achieve full coverage of the stock by 2029.	Amber
2	YER	VFM	Performance Improvement	TMOs	25	24/25 and Prior Years	The Council has developed and implemented new governance arrangements for overseeing TMOs and has identified new indicators of non-compliance or weakness that the Council has been able to take timely action to resolve. However, the Council has not yet set out its plans or intentions for ensuring any backlog of cyclical works are to be performed where TMOs were paid to perform the works but they did not happen. The Council should set out its intentions to members and the public in the interest of transparency The Council should also regularly report progress in embedding new governance arrangements for TMOs to ensure there is scrutiny of progress and any other issues arising, until such a time that TMOs are regularly complying with their contractual obligations	Outstanding	The Council has strengthened its governance and oversight of TMOs, improving its ability to identify and address non-compliance. Work is underway to review historic cyclical works obligations and identify any outstanding liabilities or works that may require remedial action, with appropriate recovery arrangements being pursued where necessary. Enhanced TMO governance arrangements are now in place, including regular performance, compliance and financial monitoring. Progress will continue to be reported through the Council's governance and scrutiny processes to provide transparency and ensure ongoing oversight until compliance is consistently achieved.	Green
3	AAR	VFM	VFM	Major Works	25	Prior	We recommend that the Council introduces a process of monitoring the delivery of major works schemes. This should include both the review of contractor performance, as well as reviewing the performance of agents. Site inspections should be performed in order to inform those reviews. Where poor performance is identified the Council should hold contractors and agents to account.	Outstanding	The Council has strengthened its governance and oversight arrangements for major works delivery through the implementation of a revised project management and contract administration approach. Major works schemes are now subject to enhanced monitoring arrangements, including regular progress meetings, contractor performance reviews, scrutiny of valuations and variation orders, and ongoing oversight by senior officers within the Investment Design & Delivery service. Site inspections are routinely undertaken by Council project managers and quantity surveyors to verify progress, quality and valuation claims. Where performance issues are identified, these are escalated through contract management arrangements and corrective action is required from contractors and consultants. The revised approach provides greater transparency, stronger cost control and improved accountability for all parties involved in the delivery of major works programmes. The Council has implemented a revised major works delivery model that incorporates lessons learned from the Devon Mansions and Canada Estate schemes. The new approach includes direct senior management oversight, strengthened resident engagement, formal approval and monitoring of variations, enhanced cost scrutiny, independent quantity surveying checks and transparent reporting to residents, ward councillors and elected members. The Council will continue to review the effectiveness of these controls through its governance processes and will consider further assurance activity, including internal audit review, as the revised approach becomes established across the wider major works programme.	Green
4	YER	VFM	Performance Improvement	Major Works	25	24/25	The Council has developed a new approach to managing major works schemes and has rolled out this approach on a trial scheme over the course of 2024-25. The intention is then to apply this new approach on schemes throughout 2025-26 and beyond. The Council has, however, not assessed if this new approach is working effectively and mitigating the issues that arose on the Devon Mansions and Canada Estate schemes. Therefore, there is a risk the same issues could re-occur The Council should obtain independent scrutiny of its new approach to major works schemes, such as through an Internal Audit review, and consider any findings prior to rolling out the new approach more broadly.			
5	YER	VFM	Performance Improvement	Transformation Programmes	26	24/25	The Council should ensure it has developed sufficient and appropriate governance arrangements to monitor the delivery and outcome of these transformation programmes, and track financial savings as part of ongoing monitoring of the medium-term financial plan (MTFP). This is to help ensure these programmes achieve their desired outcome in terms of supporting the MTFP.	Outstanding	The Council has in place appropriate governance and decision-making arrangements that provide the strategic leadership, portfolio oversight, delivery assurance and a clear route for escalation. This oversees the delivery of initiatives and development of financial benefits. The projected position of transformation savings is captured and reported through the regular financial monitoring reports.	Green
									The Chief Executive's dashboard, report against council plan and mandated local outcomes framework are all regularly reviewed and scrutinised at the quarterly CMT	

Reference	Report	Audit	Area	Topic	Page	Year	Description	Status	Officer update for Sep 2026 Meeting	RAG Rating for Further Actions
6	YER	VFM	Performance Improvement	Quality and Performance Monitoring	31	Prior years	We recommend that the Council takes its KPI dashboard to Overview and Scrutiny Committee on a regular basis and takes feedback from members as to whether the KPIs are in line with constituent's views	Outstanding	performance board. These will also be reported to OSC. Reports on Performance against the Council's delivery plan 25/26 were delivered to OSC on 20th January and as an end of term report to Cabinet on 16th March. Both reports referenced KPIs within the corporate performance framework. The change in Council Leadership following May's local elections means that priority has been given to developing a new Borough Action Plan. Work to deliver this plan includes a review of KPIs utilised within the corporate performance framework in 25/26, to consider which will be carried forward as well as where indicators are decommissioned and replaced with new ones that better reflect the ambitions of the new Borough Plan. Workshops are scheduled in August for Corporate Leadership Team and the Executive to agree strategic outcomes and KPIs to monitor and measure delivery.	Green
7	YER	VFM	Performance Improvement	Risk Management	31	Prior years	We recommend that the risk register is reviewed by both the Corporate Management Team and Cabinet on a regular basis	Outstanding	The register is reviewed by CMT on a quarterly basis. The Council's constitution sets out the remit of each committee and the Audit Governance and Standards Committee has been tasked with oversight of the Council's risk management framework who have the authority to refer as appropriate to Cabinet, if required.	Green
8	YER	VFM	Performance Improvement	Tender Waivers	31	Prior years	We recommend that the Council centrally collect details on all waivers, and present them for review and challenge by the Audit, Governance and Standards Committee at each meeting	Outstanding	We have created a log of all waivers to Contract Standing Orders (CSOs) to be logged and recorded. A report to Audit, Governance and Standards Committee will be agreed to report each of the waivers to SG&SC on a regular basis. This will be in place from the end of Q2 / start of Q3 of this financial year. There are agreed plans for the transformation of the procurement function at the council over the next 15-18 months. As part of the transformation, recording of waivers will be included within the overview of the procurement and governance process.	Green
9	YER	VFM	Performance Improvement	Leisure Service Performance	32	Prior years	We recommend that the Council develop a suite of KPIs for monitoring the economy, efficiency, and effectiveness of the leisure service, consulting with service users to identify what is important to them.	Outstanding	A comprehensive suite of financial and operational KPIs has been implemented and is monitored regularly since Q4 of 2024/25, which meant they were not fully in place during the whole financial year and therefore it is flagged as not implemented. There is no further action required as these KPIs are being monitored regularly	Green
10	YER	ISA 260	Control Deficiencies	Beacon Valuations	43/46	24/25 & Prior Years	The Council should consider whether its allocation of properties into beacons is appropriate. Should any requirement to adjust the beacons be identified, the Council should reconfigure beacons to ensure that they represent small numbers of geographically concentrated properties.	Outstanding	The Council currently uses over 1,200 beacons and sub-beacons to represent around 38,000 dwellings. Group sizes vary from smaller to larger groupings, depending on how closely the dwellings match in type and characteristics. This approach ensures valuations reflect property similarities rather than aiming for a set number of dwellings per group. The current structure therefore provides greater accuracy and more detailed analysis of the housing stock, supporting a fair and robust valuation process	Green
11	YER	ISA 260	Control Deficiencies	Review of Valuations	43	24/25	A misstatement was identified in the dwelling valuation because of a transposition error made in the valuation sheets, meaning the wrong year's figure was pulled through into the valuation journal. As a consequence the overall valuation was materially incorrect. It is our view that this error could have been identified during review had trends in valuations on a beacon by beacon basis been compared to available market data. This granular review by the Council would help to identify and then rectify any mistakes in the valuation prior to posting the valuation into the ledger. We recommend that the Council introduces a granular review of the valuation in the manner set out here.	Outstanding	For the 2025/26 financial year, the valuation process has commenced earlier to allow sufficient time for detailed reviews of significant valuation movements in collaboration with the external valuer. Additional controls are being introduced, including locking key spreadsheet columns and implementing a dual-authorisation process requiring two valuers to approve any changes to locked data fields. These measures will strengthen the accuracy and integrity of future valuations.	Green
12	YER	ISA 260	Control Deficiencies	Journal Authorisations	44	Prior years	We understand the limitations the Council has identified in the current system meaning they do not believe an approval workflow will be useful. The Council should consider introducing an approval workflow in its replacement finance system.	Outstanding	We have designed the new SAP S4 Hana finance system to have journal workflow for journal authorisations which is provided as standard functionality. The new process will go through UAT testing later in autumn 2026 to ensure that it is fit for purpose for when we go live in 2027	Amber
13	YER	ISA 260	Control Deficiencies	SAP Training	46	Prior years	We recommend that the Council identifies ways to up-skill the SAP team and ensure they have access to up to date resources and training.	Outstanding	The Southwark360 programme is providing a very rich training experience on the new modern Public Cloud version of SAP to the SAP team and other officers on the project through the programme workshops and access to training materials from the system integration partner HCL. The programme is also currently developing a new SAP application support team for the new system when it goes live in spring 2027. This new team will be provided with access to on-going SAP training to ensure that the Council's system is supported and developed in line with SAP best practice in the future.	Amber
14	PF	ISA 260	Control Deficiencies	Approval of journals: Segregation of duties	19	Prior years	The Pension Fund should consider introducing an approval workflow in its replacement finance system.	Outstanding	The new version of SAP schedule to go live from April 27 will have the approval workflow functionality	Amber

Reference	Report	Audit	Area	Topic	Page	Year	Description	Status	Officer update for Sep 2026 Meeting	RAG Rating for Further Actions
15	PF	ISA 260	Control Deficiencies	Membership reconciliation	19	Prior years	We recommend the Fund considers performing an annual membership reconciliation to ensure the completeness and accuracy of member records, which should be checked against the underlying payroll records for active and pensioner members at the year-end or keep an audit trail and do a formal check when a report is run for the year end	Outstanding	The Pension Fund has continued to develop and formalise its member reconciliation and membership movement processes during 2025/26. For Active members, reconciliations are undertaken between UPM (the Pension Fund administration system) and the Council's SAP payroll system. For Pensioner members, reconciliations are performed between the UPM Administration database and the UPM Payroll database, with validation against BACS processing files. The Pension Fund has also continued to monitor and track changes in member status as part of its response to the original KPMG recommendations, supporting the ongoing strengthening of membership data controls and reconciliation processes.	Green

Auditor's Annual Report for Southwark Council

Year-ended 31 March 2025

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22 December 2025

Contents

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Our audit reports will be made solely to the members of Southwark Council (the Council), as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the members of Council, as a body, for our audit work, for our auditor's reports, for this Auditor's Annual Report, or for the opinions we have formed.

External auditors do not act as a substitute for the Council's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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01

Executive Summary

Executive Summary

Purpose of the Auditor's Annual Report

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2024-25 audit of Southwark Council (the 'Council'). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office (the 'Code of Audit Practice') and is required to be published by the Council alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014 (the Act). Our responsibilities under the Act, the Code of Audit Practice and International Standards on Auditing (UK) ('ISAs (UK)') include the following:



Financial Statements - To provide an opinion as to whether the financial statements give a true and fair view of the financial position of the Council and of its income and expenditure during the year and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2024/25 ('the CIPFA Code').



Other information (such as the narrative report) - To consider, whether based on our audit work, the other information in the Statement of Accounts is materially misstated or inconsistent with the financial statements or our audit knowledge of the Council.



Value for money - To report if we have identified any significant weaknesses in the arrangements that have been made by the Council to secure economy, efficiency and effectiveness in its use of resources. We are also required to provide a summary of our findings in the commentary in this report.



Other powers - We may exercise other powers we have under the Act. These include issuing a Public Interest Report, issuing statutory recommendations, issuing an Advisory Notice, applying for a judicial review, or applying to the courts to have an item of expenditure declared unlawful.

In addition to the above, we respond to any valid objections received from electors.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities.

Financial statements	We issued an unmodified opinion on the Council's financial statements. This means that we believe the financial statements give a true and fair view of the financial performance and position of the Council. Additionally, we are the auditor of Southwark Pension Fund's financial statements. We issued an unmodified opinion on these financial statements. We have provided further details of the key risks we identified and our response on pages 8 and 9.
Other information	We did not identify any material inconsistencies between the content of the other information, the financial statements and our knowledge of the Council.
Value for money	Our work to assess the arrangements the Council has put in place to secure economy, efficiency, and effectiveness in the use of its resources is underway. Further details of our findings to date are set out on page 11.
Whole of Government Accounts	We are required to perform procedures and report to the National Audit Office in respect of the Council's consolidation return to HM Treasury in order to prepare the Whole of Government Accounts. As the National Audit Office has not yet concluded its audit of the Whole of Government Accounts for the 31 March 2025 financial year, we are unable to confirm that we have concluded our work in this area.
Other powers	See overleaf.

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Executive Summary

There are several actions we can take as part of our wider powers under the Act:

Public interest reports

We may issue a Public Interest Report if we believe there are matters that should be brought to the attention of the public.

If we issue a Public Interest Report, the Council is required to consider it and to bring it to the attention of the public.

As at the date of this report, we have not issued a Public Interest Report this year

Judicial review/Declaration by the courts

We may apply to the courts for a judicial review in relation to an action the Council is taking. We may also apply to the courts for a declaration that an item of expenditure the Council has incurred is unlawful.

As at the date of this report, we have not applied to the courts.

Recommendations

We can make recommendations to the Council. These fall into two categories:

1. We can make a statutory recommendation under Schedule 7 of the Act. If we do this, the Council must consider the matter at a general meeting and notify us of the action it intends to take (if any). We also send a copy of this recommendation to the relevant Secretary of State.
2. We can also make other recommendations. If we do this, the Council does not need to take any action, however should the Council provide us with a response, we will include it within this report.

As at the date of this report, we made no recommendations under Schedule 7 of the Act.

As at the date of this report, we have not raised any other recommendations.

Advisory notice

We may issue an advisory notice if we believe that the Council has, or is about to, incur an unlawful item of expenditure or has, or is about to, take a course of action which may result in a significant loss or deficiency.

If we issue an advisory notice, the Council is required to stop the course of action for 21 days, consider the notice at a general meeting, and then notify us of the action it intends to take and why.

As at the date of this report, we have not issued an advisory notice this year.

In addition to these powers, we can make performance improvement observations to make helpful suggestions to the Council. Where we raise observations we report these to management and the Audit, Governance & Standards Committee. The Council is not required to take any action to these, however it is good practice to do so and we have included any responses that the Council has given us.

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02

Audit of the financial statements

Audit of the financial statements

KPMG provides an independent opinion on whether the Council's financial statements:

- Give a true and fair view of the financial position of the Council as at 31 March 2025 and of its income and expenditure for the year then ended; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25.

We conduct our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We also fulfil our ethical responsibilities under, and ensure we are independent of the Council in accordance with, UK ethical requirements including the FRC Ethical Standard. We are required to ensure that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Our audit opinion on the financial statements

We issued an unmodified opinion on the Council's financial statements on 22 December 2025.

Additionally, we are the auditor of Southwark Pension Fund's financial statements. We issued an unmodified opinion on the pension fund financial statements on 22 December 2025.

The full audit reports are included in the Council's Annual Report and Accounts for 2024/25 which are obtainable from the Council's website.

Further information on our audit of the financial statements is set out overleaf.

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Audit of the financial statements: Council

The table below summarises the key financial statement audit risks that we identified as part of our risk assessment and how we responded to these through our audit.

Valuation of council dwellings

Councils are required to revalue their land and buildings on a cyclical basis. Due to the nature of the valuation process, a small change in an assumption or judgement can have a significant impact on the valuation reached.

The Council has a large number of dwellings valued at £5.7bn, so a small error in the valuation approach could have a significant impact on the valuation recorded.

Our procedures

We performed procedures including:

- Using our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the determined value, and
- Considering the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Our findings

We completed the procedures as described and we did not identify any material misstatements relating to this area.

Management override of controls

Auditing standards require us to identify a significant financial statement audit risk linked to fraudulent manipulation of the financial statements.

This is because management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our procedures

We performed procedures including testing accounting entries posted into the ledger which meet a heightened risk profile, such as journals which transferred costs out of the housing revenue account and into the general fund.

Our findings

We completed the procedures as described and we did not identify any material misstatements relating to this area.

Valuation of post retirement benefit obligations

The Council is a member of the Southwark Pension Fund, a Local Government Pension Scheme. Accounting standards require that the value of the liabilities to be paid to current and future pensioners.

The valuation of these liabilities is subject to complex actuarial judgements and assumptions. This means that a small change in an assumption or judgement can have a significant impact on the valuation reached.

Our procedures

We performed procedures including:

- Challenging, with the support of our own actuarial specialists, the key assumptions applied in the calculation of the liability, such as the discount rate used, and
- Considering the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Our findings

We completed the procedures as described and we did not identify any material misstatements relating to this area.

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Audit of the financial statements: Pension Fund

The table below summarises the key financial statement audit risks that we identified as part of our risk assessment and how we responded to these through our audit.

Value of directly held investment property

The pension fund invests in a variety of assets to generate the funds required to meet obligations to pensioners. One such asset is investment property, where the fund both benefits from cash generated from rental income, and also from capital appreciation when the investment property assets are sold.

Pension funds are required to revalue investment properties each year in order to ensure that the net assets of the fund accurately reflect the value that can be realised. The value is large and is dependent on assumptions. This means that a small change in an assumption or judgement can have a significant impact on the valuation.

Our procedures

We performed procedures including:

- Using our own valuation specialists to review the valuation report prepared by the fund's valuers to confirm the appropriateness of the determined value, and
- Considering the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Our findings

We completed the procedures as described and we did not identify any material misstatements relating to this area.

Management override of controls

Auditing standards require us to identify a significant financial statement audit risk linked to fraudulent manipulation of the financial statements.

This is because management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our procedures

We performed procedures including testing a sample of accounting entries posted into the ledger.

Our findings

We completed the procedures as described and we did not identify any material misstatements relating to this area.

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03

Value for Money

Value for Money

Introduction

We are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or value for money (VFM). We consider whether there are sufficient arrangements in place for the Council for the following criteria, as defined by the Code of Audit Practice:

- **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

We do not act as a substitute for the Council's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. We are also not required to consider whether all aspects of the Council's arrangements are operating effectively, or whether the Council has achieved value for money during the year.

Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council.

Summary of findings

Our work in relation to value for money is not complete. Whilst we have reached our conclusions in respect of our significant value for money risks, we are investigating an objection to the accounts and this work may result in a revision to our value for money conclusion. Consequently, matters set out here may change upon the completion of our work.

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	13 – 16	17 – 25	26 – 27
Identified risks of significant weakness?	✗ No	✓ Yes	✗ No
Actual significant weakness identified?	✗ No	✓ Yes	✗ No
2023-24 Findings	Significant weakness identified	Significant weakness identified	Significant weakness identified
Direction of travel Upwards: Increase in risks or weaknesses	↘	↔	↘

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Value for Money

National context

We use issues affecting Councils nationally to set the scene for our work. We assess if the issues below apply to this Council.

Financial performance

Over recent years, Councils have been expected to do more with less. Central government grants have been reduced, and the nature of central government support has become more uncertain in timing and amount. This has caused Councils to cut services and change the way that services are delivered in order to remain financially viable.

Whilst the Government has indicated an intention to restore multi-year funding settlements, giving Councils greater certainty and ability to make longer-term investment decisions, the Government has also proposed linking grant funding to deprivation. Analysis by London Councils argues that London Boroughs will see the largest funding losses whilst also experiencing significant financial pressure. The Institute of Fiscal Studies has found that inner London boroughs are, in particular, set to lose substantial sums.

Education

Many schools are now the responsibility of academy trusts, however some schools are still controlled and overseen by the local Council. Dedicated funding is provided by central government to run schools, however due to cost pressures many Councils have overspent against their central government allocation, particularly in relation to “high needs” expenditure (i.e. to support students with special educational needs and disability (SEND)). Government guidance is awaited on children's services reform and SEND, and some authorities are delaying transformation programmes until there is clarity on how services should evolve.

An accounting override exists meaning Councils do not need to recognise schools' deficits as part of their reserves which, for some, avoids Councils becoming insolvent. This override was extended to March 2028. However, some have raised concerns that this extension only defers the problem, and the underlying unsustainability of education expenditure has not been resolved.

Housing

Landlords, including Councils, are required to take action to ensure homes are compliant with fire safety legislation and new regulations to improve building safety. These regulations have increased the costs faced by landlords, caused loss of income where properties were void for repairs, and increased the risk of regulatory action should improvements not be made. The Regulator of Social Housing has also raised frequent concerns regarding the ability of Councils to comply with their consumer standards, in particular around treating tenants fairly and ensuring homes are safe. This has increased the cost of compliance, whilst housing budgets remain under significant financial strain. At the same time, Councils are also experiencing significant financial pressure in temporary accommodation budgets, due to high demands on services and difficulty in obtaining suitable accommodation.

Local context

Southwark is a London Borough covering a diverse inner-London region, covering busy business districts such as London Bridge, through to quieter residential neighbourhoods such as Dulwich and Peckham.

The Council is one of the largest social landlords in the country, and construction of new homes is a long-standing political priority. Whilst housebuilding has been curtailed by difficulties in obtaining affordable financing (mainly due to increased interest rates on borrowing from central government), the Council has ambitions to build more homes. The Council hopes to contribute to central Government ambitions to increase housebuilding across the country.

The Council’s housing revenue account (HRA) is under financial pressure caused by inflation, interest rates, costs to improve the safety of homes, and below-inflation rent caps imposed by the previous government.

The Council is taking action to improve the financial sustainability of its housing, whilst also responding to an adverse regulatory judgement by the Regulator of Social Housing announced during the financial year.

The Council’s non-housing activities however, whilst facing pressures (not least in relation to social care), are not experiencing the same level of financial pressure as housing.

Over recent years, the Council has taken a strategic decision to in-source services previously delivered by third parties. The Council has now integrated leisure services following in-sourcing during 2023/24.

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Financial Sustainability

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

We have considered the following in our work:

- How the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council 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; and
- How the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Budget setting and financial outturn

For 2024/25, the Council set a net (i.e. costs less fees, charges, and service-specific grants) general fund budget of £355m. Outturn was £373m, the difference in which was driven primarily through demand on temporary accommodation budgets on account of the number of homeless individuals and families in the borough (and London more broadly). Some of the overspend was met through planned use of earmarked reserves, however the Council was required to use £5.3m of contingency funds, an increase from £1.4m in the prior period.

Whilst the increase in contingency use demonstrates the significant financial pressures faced by the Council, the low value of contingency as a percentage of the net outturn (1.4%) demonstrates that the Council set an achievable budget and managed its financial risks well throughout the year.

The Council's refreshed medium term financial strategy (MTFS) for 2024-25 through to 2026-27, as submitted to February 2025's Cabinet meeting showed no unidentified savings requirements, down from £11m in the February 2024 refresh, although this excludes the potential impact of funding reform on the Council's finances as they were unknown at the time of preparing the MTFS. This reduction the Council initiating a significant transformation programme, as set out in the "Savings plans" section.

Savings plans

Like all organisations, the Council is required to identify savings so it can set a balanced budget. Consistent with the prior period, the Council categorises savings plans into efficiencies, where officers do not believe there will be an impact in the quality of service delivery, income generation plans, where income can be generated either through charging for a service which was previously free or increasing a charge, and cost reduction plans which impact on the services provided to residents.

The Council has acknowledged that financial savings are becoming increasingly difficult to identify and implement. This is not unique to the Council – many public sector bodies have already implemented all but the most challenging savings to identify and ongoing demand pressures mean there are fewer opportunities to generate further efficiencies.

The Council has therefore initiated cross-Council transformation programmes, as reviewing the way teams work together or use technology are likely to generate substantial savings in the longer-term, but may require upfront investment. An example includes the upgrade and replacement of its finance system, as the age of the system enforces antiquated and inefficient working practices. Achievement of these savings will be essential in ensuring the Council remains financially sustainable following anticipated reductions in grants following planned changes to how local government is funded.

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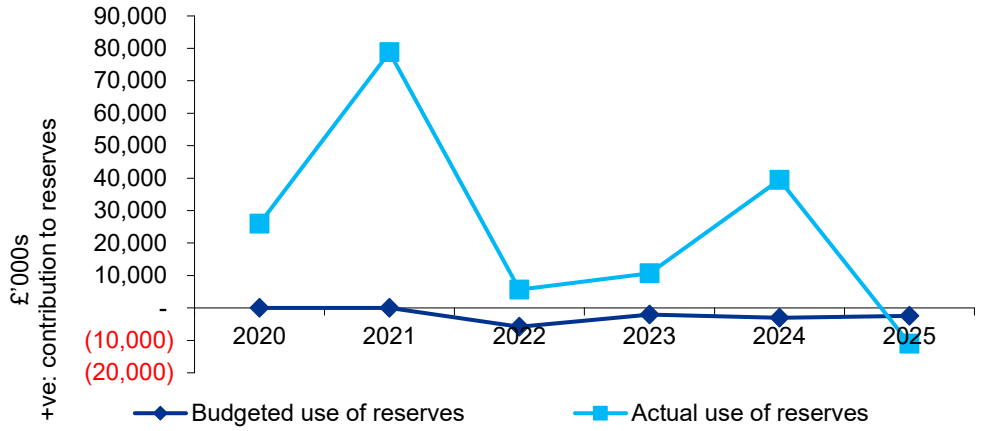
Financial Sustainability

Owing to how critical these transformation programmes are to the Council's financial sustainability and quality of services, the Council will need to ensure it has developed effective governance arrangements to ensure these programmes are effectively delivered and reported to members. Consistent with the prior year, for routine savings programmes we could not see how savings plans were monitored for effectiveness either from the perspective of achieving the required savings or not having a worse-than-expected impact on quality. However, owing to the Council's financial strength and effective outturn against budget and the fact the Council is moving away from piecemeal savings, we do not believe this is a significant issue.

Reserves

Councils are required by law to not deplete their reserves. The principal reserve for a Council is the general fund, which is used to meet day to day expenditure. Owing to the financial pressures set out earlier, and planned uses of reserves for investments in services, the Council's overall general fund balance fell by £11m during 2024-25 (£32m increase during 2023-24).

The size of the reserves means the Council continues to have ample buffer to respond to unexpected financial pressures and challenges and therefore we have not identified any financial sustainability risks. However, the Council will need to ensure it achieves savings plans (including transformation programmes) to minimise the likelihood of a significant pressure on reserves through a deterioration in the financial position. This is pertinent noting the risk of funding reductions in future years following central Government funding reforms.



Key financial and performance metrics:	2024-25	2023-24
Planned surplus/(deficit), excluding HRA*	-	-
Actual surplus/(deficit), excluding HRA*	(5,325)	(1,429)
Planned HRA surplus/(deficit)	-	-
Actual HRA surplus/(deficit)	3,909	(2,537)
Usable reserves	503,438	434,364
Gross debt compared to the capital financing requirement	0.63 : 1	0.63 : 1
Year-end borrowings	1,168,786	1,096,438
Year-end cash position	50,857	34,530

HRA: Housing Revenue Account, a ring-fenced fund relating to social housing

Gross debt compared to the capital financing requirement: Authorities are expected to have less debt than the capital financing requirement (i.e. a ratio of under 1 : 1) except in the short term, else borrowing levels may not be considered prudent.

** After use of reserves.*

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Financial Sustainability

Housing Revenue Account

Over the past few years, the Council has experienced financial pressure within the Housing Revenue Account (HRA), a ring-fenced fund for income and expenditure relating to the provision of social housing. Like with the general fund, there is a legal requirement to ensure the HRA reserve is not depleted. At 31 March 2025, the HRA reserve sits at £21m which is considered small for a Council of this size. However, it is an increase of £4m since 2023-24.

The Council's HRA pressures have been driven by a variety of factors, including:

- Inflation, in particular the impact on repairs and maintenance expenditure;
- Below-inflation rent increase caps; and
- Building safety risks, such as those linked to fire and damp, requiring remedial work.

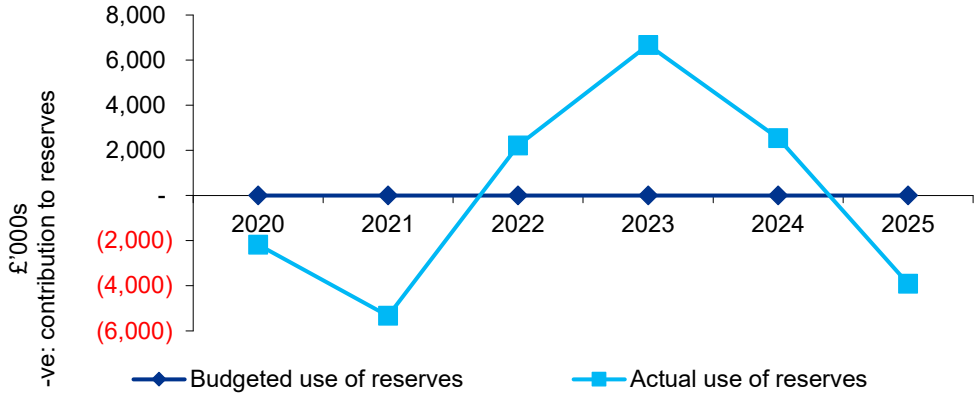
The Council has been criticised by the Regulator of Social Housing (RSH) in relation to a variety of issues (see later) including building safety. The Council has identified that a significant proportion of homes (c. 30%) are not meeting the decent homes standard although the exact proportion in this condition is unknown due to a lack of an up to date stock condition survey.

This means there is a risk the Council has an incomplete picture of the work required to remediate all safety issues and other defects in homes. However, based on a pilot survey the Council does not believe there are any significant issues it is not already aware of because the pilot results were consistent with the Council's own expectations.

As Councils are expected to generate surpluses to fund capital investment, such as in improving the quality of homes, the pressure in HRA balances means that the Council has now started to borrow to fund capital investment. This generates further interest charges and compounds the financial sustainability issues in the HRA.

Furthermore, as a landlord developing new homes, the Council is also exposed to high interest rates as debt is taken out from the PWLB (a Treasury service) to fund the construction of new homes. To this end, the Council has been pairing back its new homes programme as it is not considered financially viable. The Council is looking at alternative delivery models to build new homes, such as purchasing social homes from developers building housing estates, and is exploring how it could work with central Government to fulfil its housebuilding ambitions.

The trend in HRA balances over time is set out below. This shows how the HRA reserve is starting to be rebuilt, however the Council is not yet in a position where the HRA is financially sustainable.



The Council introduced a HRA recovery plan to support rebuilding the HRA into financial health. The first year of the plan has been successful, as seen in the graph above. The HRA surplus was driven primarily through rigorous cost control, disposal of uneconomic assets, and higher income from charges as compared to budget, with the surplus re-invested in homes and so reducing the need to borrow (and hence incur interest charges). Whilst the surplus is positive, some of the contributory factors are non-recurrent in nature (for instance the income was primarily due to one-off collection of service charges) and therefore there is a risk of deficits reemerging in the future.

The early years of the recovery plan focus on cost control whilst borrowing to improve the standard of homes. In later years of the plan there is focus on repaying debt. Therefore, the performance in the year is consistent with the plan, which was adequately communicated through the governance structure during the year. Whilst the Council has been able to manage the position to date, with the financial sustainability challenge it faces the Council will need to continue its focus on cost control to bring the HRA into a recurrent and sustainable surplus position.

Overall, we have not identified any risks that arrangements to ensure financial sustainability may be inadequate.

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Value for Money: Recommendations

Below we have set out our findings from following up recommendations raised in respect of significant weaknesses identified in prior periods:

#	Issue, Impact and Recommendation	Update as of December 2025
1	The Council has developed an HRA Recovery Plan as a mechanism to bring the HRA back into financial health. We have established that the Plan is dependent on non-recurrent measures in the short term, in particular through borrowing. Whilst the Council is aiming to reduce costs to build recurrent savings into the HRA there is a risk that, should these savings not materialise, the Council will need to take further non-recurrent action. Furthermore, the Regulator of Social Housing (RSH) has identified that the Council does not have an up-to-date stock condition survey for its housing, meaning that the Council does not have a clear picture of the maintenance obligation it has to ensure its housing is in a good state of repair. The RSH also noted that a substantial portion of the Council's housing does not meet the Decent Homes Standard, a regulatory requirement for social housing. Rectifying any maintenance backlog, and ensuring homes meet the Decent Homes Standard is a substantial financial burden for the Council, and is a cost pressure which will impact the HRA recovery plan, particularly as there is a short-term need to borrow to fund asset management costs. We recommend that the Council clearly reports through its governance structure whether the required recurrent savings in the HRA recovery plan are being achieved, and whether the progress required to bring the HRA into financial health is being achieved. This reporting should also clearly show the impact and financial mitigation of any works required once a stock condition survey is completed.	**This recommendation has been implemented.** The Council's internal reporting, in particular regular reporting to Cabinet clearly demonstrates the action being taken against each of the elements of the HRA recovery plan (i.e. cost reduction, borrowing, disposal of surplus assets) and progress being made against each of the financial targets set. The Council, however, has not yet reported on the likely impact of its maintenance obligation once it has completed its stock condition survey. This survey has not yet been performed, although we understand the Council has commissioned it and it will take time to complete due to the size of the estate. Further details is set out on page 22 where we have identified a significant weakness linked to governance. We are therefore of the view that the Council will need to report on stock condition, and the impact on financial sustainability as part of future reporting through its governance structure. However, the most pressing and imminent risks in respect of financial sustainability are being monitored, managed, and reported on and therefore we are content to close with recommendation. Notwithstanding the above, owing to the partially non-recurrent nature of the surplus generated in 2024-25, the Council will need to continue rigorously controlling costs and get to a position of a recurrent, sustainable surplus in line with the timescale set out within the recovery plan. As the Council has now taken better control of the financial sustainability of the HRA through the implementation and governance of the HRA recovery plan and has initiated plans to obtain a stock condition survey, we have not identified a significant weakness in respect of financial sustainability arrangements this year.

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Governance

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

We have considered the following in our work:

- how the Council monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Council approaches and carries out its annual budget setting process;
- how the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour.

Risk management

The Council has a risk management procedure which is in line with what we would typically see across the public sector. Risks are grading in line with a methodology typical in the sector. Risks are assessed against a variety of impact factors, including the impact to legal compliance, reputation, and quality of customer service. This allows the Council to ensure it captures and manages risk covering the breath of the Council's operations. Risks are also aligned against the Southwark 2030 priorities, allowing the Council to identify where risks may present challenges in delivering the strategy.

Risks are reported on an annual basis to the Audit, Governance, and Standards Committee. This ensures democratic oversight of the risks faced by the Council and an opportunity for members to compare risks against the assurances they receive through other sources. Good practice would involve the strategic risk register also being reported to Cabinet.

The Council's key risks as at January 2025 included:

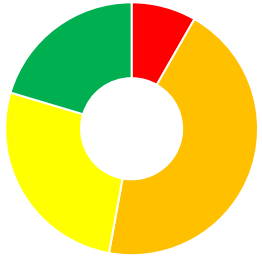
- Financial pressures in the housing revenue account;
- Asset management and building safety;
- Cyber security;
- Medium term financial planning, including the impact of funding reform; and
- Failure of key providers and partners.

We note the risks identified are consistent with the pressures faced by the Council, including alignment to significant value for money risks in this report. The Council has also identified the impact of building safety as a risk, which is appropriate considering the action the Council is taking in response to an adverse regulatory inspection (see later) and ongoing sectoral focus on the safety of homes.

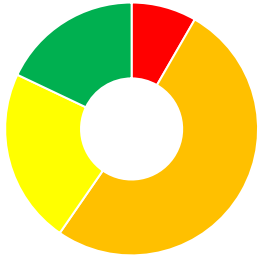
The report shows an increase in the overall severity of risk at the Council, see right, reflecting the uncertainty triggers by ongoing financial pressure, regulatory oversight (in particular in relation to building safety), and funding reform.

We understand the Council's approach is to maintain departmental risk registers which are collated within the central risk IT system and used to prepare this annual report.

January 2024



January 2025



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Governance

Governance structures

The Council has a structure where the Cabinet make the key strategic decisions which are then implemented by officers, with the Overview & Scrutiny Committee being used to hold the cabinet to account. This is a typical approach for London Boroughs.

Decision making

Councils are required to make decisions in an informed and robust manner. The Council's Cabinet makes key strategic decisions, and those decisions are placed on its Forward Plan to allow for public comment for a minimum of 28 days.

The decisions which require consideration by the Cabinet are set out in the Constitution, and the threshold is sufficiently low to ensure most decisions are subject to Cabinet oversight. Decisions below that threshold are therefore made by officers however there is also the opportunity for the Overview and Scrutiny Committee to call in decisions, based on Committee review of the Forward Plan.

The Cabinet's decision-making process is in line with what we typically see at a local authority. Proposals are set out in papers, which set out the rationale for the proposed way forward, any alternatives), the outcome of any consultations, and then an impact assessment containing a variety of factors such as on community, climate, equalities, finances, and legal.

We reviewed a decision to make a compulsory purchase of homes at the Tustin Estate which clearly set out these factors and therefore provided the basis for the Council's decision to demolish the estate and build new homes in its place.

The Council's decision-making process is designed to trigger member involvement both when required by legislation, but also where there are qualitative or quantitative factors which mean the decision is significant. For instance, any write-off of bad debt over £50,000, consideration of procurement reports (see next section), or granting/withdrawing financial support to businesses or individuals in excess of £10,000 all require approval by Cabinet. This ensures that there is appropriate scrutiny of decisions which have a significant qualitative or quantitative impact on operations.

	2024-25	2023-24
Governance issues reported in the Annual Governance Statement	4 issues identified, relating to: RSH regulatory inspection; TMO governance; school financial sustainability; cyber security; and ERP replacement programme.	2 issues identified, relating to: LGA peer review and cyber security.
Head of Internal Audit Opinion	Moderate assurance	Moderate assurance
Ofsted rating	No inspection of services in year	No inspection of services in year
Local Government Ombudsman findings	52 upheld complaints	27 upheld complaints
Housing Ombudsman findings	42 cases of maladministration or severe maladministration	28 cases of maladministration or severe maladministration
Care Quality Commission rating	No inspection of services in year	Good (Orient St Adult Respite Unit)

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Governance

Tenant Management Organisations (TMOs)

A TMO is an organisation set up to allow leaseholder involvement in the management of their estate, with the TMO procuring maintenance works on the Council's behalf. The relationship between a TMO and the council is governed by a Modern Management Agreement (MMA).

During the 2023-24 Auditor's Annual Report, we reported a significant weakness in arrangements to manage TMOs on account of a failure of the Council to adequately monitor the performance of TMOs and ensure they complied with their contractual obligations to the Council.

We found that:

- Monitoring arrangements for TMOs did not cover all the matters the Council ought to have considered in line with the TMOs' obligations under their MMAs;
- There were consistently weak arrangements at individual TMOs identified and reported on by Internal Audit, suggesting pervasive weaknesses in governance; and
- At one particular TMO, Fair Community Housing Services, the TMO was found to have spent funds intended for cyclical decorations on other activities. An action plan was developed to prevent similar issues occurring in the future, however we could not identify sufficiently developed governance arrangements to ensure those actions were implemented. That particular TMO has since been deregistered by the Financial Conduct Authority due to non-compliance with Community Benefit Society legislation in respect of financial compliance.

During 2024-25, the Council has started to implement improvements in governance arrangements for TMOs. Specifically in relation to the cyclical decorations activity, the Council engaged forensic accountants to examine whether that TMO acted fraudulently and concluded it did not. The Council was also able to recover some, but not all, of the funds paid over for cyclical works to that particular TMO (and one other).

In respect of TMO compliance more broadly, the Council has set up a new TMO governance team to ensure that contractual obligations are met in the future. This includes the development of a contract monitoring checklist in collaboration with Internal Audit.

As an example, the Council's new governance arrangements, as well as Internal Audit, identified a significant breach of the MMA at Cooper Close TMO, where the TMO was found have not submitted audited accounts, as well as weaknesses in respect of procurement, management of rents and arrears, human resources, and financial controls. The Council stated that it considered controls and governance to be significantly improved at that TMO following its intervention based on its continued engagement with the TMO.

In respect of cyclical decorations, the Council has identified eight TMOs where the TMOs were in poor financial health on account of the low level of reserves as compared with accumulated funds for cyclical decorations. The Council stated it has commissioned a review to decide the way forward in respect of these TMOs, however the findings have not yet been communicated to Audit, Governance and Standards Committee to provide independent challenge as to whether governance arrangements are sufficiently mature.

Notwithstanding the above, we are satisfied that no significant value for money risk has arisen this year. This is because the Council, whilst clearly embedding its new governance processes in respect of TMOs, has adequately implemented new arrangements to monitor TMOs. There continue to be issues related to TMOs however the Council is embedding mechanisms which are identifying these issues so that action can be taken. The Council has the procedures to both monitor and identify TMO risks itself, and to subject itself to scrutiny by members to help ensure TMOs are operating effectively and delivering good services to residents.

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Value for Money: Recommendations

Below we have set out our findings from following up recommendations raised in respect of significant weaknesses identified in prior periods:

#	Issue, Impact and Recommendation	Update as of December 2025
1	We identified that the Council has no robust or structured process for how TMOs are monitored. We found arrangements to be informal, with review meetings (where performed) not aligned with the requirements set out in management agreements. The Regulator of Social Housing (RSH) has identified that the Council's arrangements for managing tenant management organisations (TMOs) more widely is insufficient and raised this as a matter of concern within their regulatory judgement published in November 2024. This indicates that the Council has not implemented sufficient measures to improve controls over TMOs following the findings raised in previous years' audits. Aside from matters raised in previous periods, if the Council does not improve its arrangements in relation to TMOs, there is now an increased risk of regulatory action being taken against the Council. We recommend that the Council develops a formal monitoring and oversight arrangement in place for how the Council monitors the performance of and relationship with TMOs, aligned with the contractual terms of the management agreements. We further recommend that the Council updates its action plan in relation to TMOs to ensure it considers all matters raised through routine internal audit inspections over the course of 2023/24, any other issues brought to the Council's attention from tenants and leaseholders, and any matters which have arisen following the RSH inspection. We finally recommend that, in the interest of transparency and good governance, the Council should present progress against its action plan through its governance structure, for instance through Audit, Governance and Standards Committee or through Overview and Scrutiny Committee.	**These recommendations have been implemented** As set out on the previous page, the Council has now developed a new approach to monitoring the effectiveness and compliance of TMOs. In doing this, the Council has developed a monitoring arrangement in collaboration with Internal Audit which would therefore take into account the findings Internal Audit raised from previous reviews. Owing to the new nature of these governance arrangements, the Council's processes are still embedding and therefore are expected to be operating as business-as-usual l in the next financial year. The Council has stated publicly the changes it has made and initial findings in a paper to Audit, Governance and Standards Committee in February 2025. However, on account of the significance and severity of the issues raised, the Council should report regularly on findings and progress until it is satisfied that TMOs are routinely complying with their contractual obligations. The most severe issues raised were in relation to cyclical decorations, where TMOs received funds which were then not spent for their intended purpose. The Council has identified several TMOs where there is a risk of financial failure as the TMOs do not have the reserves to either perform the works to which they have been paid, or to return the funds. The Council should set out what action it is taking in respect of these TMOs so there is public scrutiny as to how the Council will ensure issues raised previously do not reoccur. The Council should also set out how it indents to ensure overdue cyclical works are performed at properties where TMOs have not performed works to which they have been paid. This is to ensure that residents have confidence that TMOs will comply with their contractual obligations going forward.
5	*Raised prior to 2023-24* The Council should ensure that it fully implements the agreed actions following Internal Audit's consideration of governance arrangements for funding and monitoring the activities of the Fair Community Housing Services (FCHS) Tenant Management Organisation (TMO).	

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Governance

Major Works

The Council undertakes major works to improve the quality of its housing estate. This is in the form of the “Quality Homes Improvement Programme” or QHIP. The nature of major works will vary from estate to estate depending on the condition of each set of homes.

During the 2023-24 Auditor’s Annual Report, we reported a significant weakness in arrangements to govern major works schemes, specifically in relation to schemes at Devon Mansions and Canada Estate.

This was because the Council undertook a “hands off” approach to managing contractors, delegating responsibility to agents who did not adequately discharge their duties to the Council. The Council also did not monitor and oversee the works performed effectively as they did not always physically inspect the works on site.

As a consequence, the Council could not ensure that works were being completed in an effective and economical manner, which may have resulted in either poor quality works or financial resources spent in an ineffective manner.

The estates where the deficiencies arose in the prior period were in relation to schemes which had, other than rectification of quality issues, been completed. The Council informed us that it had made improvements to its arrangements for managing QHIP schemes and has performed one scheme during 2024-25 where these new arrangements were in place.

The Council has not obtained independent verification as to whether these improvements will rectify the issues raised during the Devon Mansions and Canada Estate schemes, and therefore the Council must ensure these improvements are operating effectively before rolling them out onto schemes more broadly.

We are also aware of further matters which came to light in respect of non-compliance with procurement regulations as part of the above schemes. A review by the Council identified that the value of these schemes exceeded the values approved as part of the procurement exercise of around 50-75% depending on the scheme, and the Council’s arrangements for contract extensions were not followed.

With this in mind we identified a significant risk that there may have been weaknesses in the governance arrangements that the Council has in place to help secure value for money because of the issues associated with the monitoring and management of major works schemes. Furthermore, the identification of breaches of procurement regulations may mean the improvements made for the major works scheme during 2024-25 may not completely address all the issues that exist in the process.

Our investigation identified that there were no major works schemes to assess improvement in contract management controls at over 2024-25. This is because there were no substantial schemes (as opposed to routine maintenance) beyond a scheme at the Consort Estate which had only just commenced in March 2025. This also means the findings noted to the left from an internal review had no bearing on arrangements during 2024/25, however we will assess if there is continual impact in future periods where more substantive works took place.

Consequently we have not identified a significant weakness in arrangements in 2024-25.

Regulator of Social Housing

During 2024-25, the Regulator of Social Housing (RSH) issued the Council with a C3 rating in respect of the Council’s compliance with the regulator’s Consumer Duty. This reflected a variety of reasons, including lack of electrical safety tests, a large proportion of homes being non-decent, the Council’s housing allocation policy and the issues noted previously regarding TMOs, amongst other reasons.

The deterioration in performance has also been borne in the increase in Local Government Ombudsman and Housing Ombudsman findings, the vast majority of which relate to allocations and building condition and associated complaint handling respectively.

C3 is a non-compliant grading, with C1 being the best grading and C4 being the worst. Councils were not previously subject to RSH grading, and therefore many Councils are receiving poor gradings now they are within scope of inspection.

We have identified a significant risk that arrangements to secure good governance are weak because of the potential that arrangements have not been developed to rectify the issues identified. We have set out our findings overleaf.

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Significant Value for Money Risk

The risk

During 2024/25, the Council received a damning judgement from the Regulator of Social Housing, raising several concerns including, but not limited to, building safety concerns; unfairness in the housing allocations policy; and poor governance of TMOs.

At the time the RSH decided not to take enforcement action against the Council because there was a clear commitment by the Council to putting things right.

However, if the Council does not have an adequately governed arrangement to improve its housing service, there is a risk of future penalty by the RSH, as well as a worsening quality of service for Southwark residents.

We have therefore identified a significant VFM risk that the Council may not have appropriate governance arrangements in place to ensure the successful resolution of the RSH's concerns.

Our response

Assess the governance arrangements the Council has implemented to respond to the RSH's findings. Assess whether there is an adequately developed action plan, including clear actions with monitoring to ensure they are successfully implemented.

The Council has developed an improvement plan in respect of the issues raised by the RSH. This is called the “Housing Improvement Plan” (the Plan). Whilst there were various matters which triggered the overall C3 grading, the two most significant issues were:

- A significant number of homes do not meet the required standards on either individual safety elements – e.g. Gas Safety & Fire – or overall decency.
- The way the council allocates its homes could be more transparent. The current allocations policy was last refreshed in 2013.

We note that the Council has fully accepted the findings raised by the RSH, and has committed publicly to making improvements.

The Council has established a Housing Improvement Board, which has overall responsibility for monitoring the overall progress of the Plan. This is supported by individual boards for specific workstreams within the Plan, and forums to engage with residents. The Board also feeds into the HRA recovery board, charged with restoring the HRA to financial health, and so is appropriate that the Council ensures improvements to operational performance does not affect financial performance and vice-versa.

Each workstream within the Plan is linked to an overall theme, such as ensuring “all repairs are completed on time to a good standard”. There are a specific set of actions against each theme, with overall status monitored. Where status is behind plan, specific detail is given on the action being taken to get back on plan. This is in line with what we typically see in such plans.

The Plan also sets out specific actions and progress made to improve on the specific themes raised by the RSH. For instance, the Plan sets out the estimates to being fully compliant in respect of electrical safety certificates, smoke alarms, and fire risk assessments. There are similarly specific actions in place regarding updates to the allocations policy.

Consequently the Housing directorate has taken positive action to respond to the issues raised, and report on progress. However it is important that reporting captures both the progress and any emerging risks and issues that arise as the Plan is implemented to better aid decision making and provide more assurance to stakeholders over the timeframe to reach a compliant RSH grading.

Stock condition – work programme and progress made

A key element of the RSH’s findings at Southwark and other authorities is a lack of stock condition survey. Whilst the action plan does include the preparation of a stock condition survey, the size of the Council’s estate means it will take several years to complete. There remains, therefore, a risk in the period to 31 March 2025 that the Council did not have a complete picture of the condition of its estate and therefore may not have been fully able to handle the expectations of residents and the RSH, as well as make effective investment decisions. The Council, however, confirmed it does make informed decisions on housing investment based on repairs data.

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Significant Value for Money Risk

It is clear that good progress has been made over the course of the year. The Council has initiated a pilot stock condition survey during 2024-25 and is currently progressing a programme to roll out surveys across the entire estate through to March 2029. The Council then intends to survey 20% of its entire estate each year on a cyclical basis to ensure stock condition data remains timely and relevant.

Based on data collected so far, the Council has found several significant findings at specific properties but has an overall picture of stock condition being better than initially assumed. This is consistent with a 5% reduction in the percentage of homes found to be non-decent between April 2024 and February 2025, however there is a risk that the pilot survey is not representative and therefore the percentage of non-decent homes could fluctuate, both positively or negatively, as more information comes to light.

At the end of the financial year the Council did not have a clear and complete view on stock condition as the bulk of the survey data is being created after year-end. However, the Council has made significant and positive progress to improve stock condition and is likely to shortly be in a place where it can effectively take detailed information through its governance structure. We also note that the Council has engaged with the RSH on the development and monitoring of the Plan. This ongoing dialogue, and the future collection of complete stock condition data will likely support successful delivery of the Plan and, in time, a compliant RSH grading.

Our conclusion

Based on our findings, we have identified a significant weakness in arrangements linked to governance on account of the lack of stock condition survey as at 31 March 2025 having a material impact on the ability of the Council to effectively manage its estate and comply with the RSH's consumer standards. We do however acknowledge the programme of work that is underway and the focus being given to this area by the Council which has continued after the year end.

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Significant Value for Money Risk: Recommendations

The recommendations raised as a result of our work in respect of significant value for money weaknesses in the current year are as follows:

#	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	In November 2024, the Regulator of Social Housing (RSH) announced the outcome of a planned inspection into the Council's arrangements for compliance with the Consumer Standard, a regulation set out by the RSH. The RSH are currently performing inspections at a variety of councils following the introduction of that Standard. The RSH, amongst other matters highlighted in its inspection report, said "we identified Southwark Council does not have up to date stock condition information for most of its homes. Southwark Council's last stock condition survey was undertaken in 2010 on a representative sample of 10% general needs, and 20% street properties." and "Furthermore, Southwark Council reported to us that around 30% of its homes do not meet the requirements of the DHS [Decent Homes Standard]". The Decent Homes Standard is a Government expectation as to the minimum acceptable quality of a social home. The Council has taken action to respond to the RSH's findings. One of the most pressing actions is in relation to stock condition, due to the risk that there is a material backlog of repair works required to bring homes to a decent standard. The Council has recently commissioned the survey, and has received some feedback on a trial basis, however is still some way from having a complete picture of the condition of its stock. As there is better visibility of the prioritised remediation plans, the likely cost impact on the HRA to remediate and on the Council to address the any repairs backlog identified, this should be communicated through the governance process so that there is a clear understanding of the risk exposure, the associated financial implications and the mitigations required. The Council's plans should also include details of the expected timeline to achieve an improved RSH inspection outcome.	The Council has commissioned a stock condition survey to assess the condition of its housing stock and support the financial sustainability of the Housing Revenue Account (HRA). Initial trial feedback has been received, and the programme is progressing under the oversight of the Partnership Board, which actively mitigates any programme management risks. A key principle of the survey programme is the strict "no-reporting policy for general day-to-day repairs". Residents are instructed to continue reporting these through existing channels, and as such, the programme is not expected to generate any material increase in HRA costs from standard responsive repairs. The primary financial impact on the HRA will arise from the identification of Health and Housing Safety Rating System (HHSRS) Category 1 and Category 2 failures, particularly those related to damp and mould. While some of these issues may have already been reported, the majority are new findings and will require inspection and remedial action. These failures also affect Decent Homes Standard (DHS) compliance. For example, in the pilot phase, five severe HHSRS failures were identified, which reduced DHS compliance by 7%. As of the end of October (one month into the full programme), the survey has identified: • 79 severe failures (Category 1) • 22 moderate failures (Category 2) Each case will require some level of intervention, though costs will vary depending on the severity and scope of the issue. Cost data is currently held within the repairs team, who are responsible for resolving the failures. This issue has been discussed at our Partnership Board meeting, and there is scope to monitor the financial impact through this governance process.

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Value for Money: Recommendations

Below we have set out our findings from following up recommendations raised in respect of significant weaknesses identified in prior periods:

#	Issue, Impact and Recommendation	Update as of December 2025
3	The Council is dependent on its employers agents for ensuring contractors for major works complete their activities properly and are paid only for work completed. Whilst this is not unreasonable, and is established practice within the construction industry, it is also expected that organisations such as the Council engaging contractors also undertake their own oversight. This is to ensure that construction work is progressing in line with the timetable expected by the Council, any emerging issues are promptly identified, and unexpected delays or cost increases are kept to a minimum. We understand that the Council's major works team did not inspect construction activities and challenge contractors and agents, meaning the Council was unable to effectively hold contractors and agents to account. We understand that the Council does have sufficiently skilled individuals to perform this role. We further understand that some residents and leaseholders, who have concerns regarding the quality and price of works performed on their properties, were able to perform that review and challenge of the contractors when the Council did not. We recommend that the Council introduces a process of monitoring the delivery of major works schemes. This should include both the review of contractor performance, as well as reviewing the performance of agents. Site inspections should be performed in order to inform those reviews. Where poor performance is identified the Council should hold contractors and agents to account.	Our investigation identified that there were no major works schemes to assess improvement in contract management controls at over 2024/25. This is because there were no substantial schemes (as opposed to routine maintenance) beyond a scheme at the Consort Estate which had only just commenced in March 2025. Consequently there was no opportunity for the Council to either demonstrate improvements in the control environment since 2024/25, or any evidence of a significant weakness in contract management arrangements during 2024/25. We did review evidence of the contract monitoring arrangements for the Consort Estate project during 2025/26. As part of this we noted that the Council had performed its own inspection of works underway on the site and the Council was able to evidence how it challenged the quality and financial performance of the works as they were taking place.

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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

We have considered the following in our work:

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

Cost benchmarking

Key to identifying how a Council can ensure economy and efficiency is to assess how its costs compare to others. Consistent with last year, we did not identify a systematic manner in which the Council assesses how the cost of its services compares to peers in London and we would expect that benchmarking would form part of the Council's identification of savings plan. However, noting the strength of the Council's general fund, the Council does not generally need to take firm action to control costs to stay financially sustainable.

The Council is aware of the imminent financial pressure that is likely to be caused by funding reform. The Council has initiated various transformation programmes to ensure it remains financially sustainable (see earlier). The Council should consider identifying unit costs for services to see how it compares to its peers to ensure that any service redesign transformation takes into account best practice seen elsewhere in the sector.

Procurement

To ensure the Council achieves the best value when buying goods and services, the Council has a multi-stage procurement approval process. This is set out in the Constitution. The number of stages of approval required is dependent on the value of the expenditure, with very low value spend subject to a simpler process as is allowed by procurement law. The stages are:

- Stage 0: Pre-procurement assessment (to identify routes to market);
- Stage 1: Approval of procurement strategy;
- Stage 2: Approval of contract award; and
- Stage 3: Approval of contract variation or extension (if required).

The approach to procurement set out above helps to ensure the Council buys goods and services in an economical manner – this is because there is scrutiny of the procurement approach and therefore opportunity for challenge to ensure a best value approach is taken. However, these processes are only effective if the Council complies with them. As set out in the Governance section, there has been evidence indicating that contract variation/extension arrangements may have been breached in respect of certain major works schemes in the past. We have not identified any evidence that there have been any such breaches during 2024-25, either in relation to major works or otherwise, but the Council will need to ensure it is satisfied that its procurement rules are complied with on an ongoing basis.

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Improving economy, efficiency and effectiveness

Tender waivers

Councils are required to ensure they achieve best value through procurement which is achieved generally through a procurement exercise. On occasion, it is necessary to obtain a waiver from procurement rules as there may be an urgent reason to award a contract to an incumbent, or there may be a monopoly supplier. As set out on the previous page, Council's Constitution allows for a waiver from procurement policy via a Gateway approval from Cabinet, in line with expectation.

Most public sector organisations subject tender waivers to review and approval by a separate part of the governance structure to ensure parties approving waivers are appropriately discharging their duty. This can be done either retrospectively or prospectively.

The Council told us that it does not have a single register of all waivers approved and consequently there is no review of tender waivers by any one body or forum. The Council reported to Audit, Governance and Standards in February 2025 that it will run a pilot during 2025-26, with a view to rolling this out cross-council from Q1 of 2026-27, and progress work to integrate the process.

Once collected, we would expect the Audit, Governance and Standards Committee to review waivers on a regular basis to ensure there is oversight of the waiver process and opportunity to challenge situations where the Council is potentially not achieving best value.

Once done, the Council will be in a place to assess if the extent of its waivers are in line with its peers, or if there is an opportunity to generate efficiencies by reducing the number of waivers.

Operational performance

The Council restarted its performance monitoring division during 2023-24, meaning this is the first year that arrangements will have been in place for the full year. The Council has developed a suite of Key Performance Indicators (KPIs) which are reported on a quarterly basis to the Corporate Management Team (CMT). These KPIs are aligned to individual commitments set out in the Council Delivery Plan, which has been refreshed to reflect the Southwark 2030 strategy.

Individual CMT members, Cabinet members, and Directors have been given named responsibility for individual metrics. The KPI report also, appropriately, defines each metric and gives indication of the achievement required. Quarterly performance is tracked over time, with commentary given for performance of the KPI. KPIs are "RAG rated" according to performance against target. This is consistent with the reporting in the prior period, demonstrating how performance monitoring arrangements are maturing.

As an improvement from last year, the red and amber KPIs (reflecting either at risk, or in progress but experiencing challenges respectively) also set out explanations for what is driving poor performance, and what action is being taken to ensure the KPIs return to being green rated (on track). The granularity as to how the metrics are monitored is improved compared to last year, which only set out whether the commitment was against target and did not consider future trajectory or risk in the same way.

As at Q2, the breakdown of commitments were as follows, showing that the Council was effectively delivering its plans:

- **42 delivered (24.2%)**
- **95 on track (54.9%)**
- **12 to be delivered post 2026 (6.9%)**
- **13 in progress but have experienced challenges or delays (7.5%)**
- **3 at risk (1.7%)**
- **8 decommissioned by agreement (4.6%).**

Consistent with the prior year, the KPI report was not reported to either Cabinet or Overview & Scrutiny Committee, which puts the Council out of line with its peers. We believe it is important for there to be democratic oversight of the Council's performance and commitment to residents, and for the Council to be consistent with good practice we see elsewhere in the sector.

Overall, we have not identified any risks that arrangements to secure economy, efficiency, and effectiveness may be insufficient.

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Southwark Council

Report to the Audit, Governance and Standards Committee

Year end report for the year ending 31 March 2025

22 December 2025

Introduction

To the Audit, Governance, and Standards Committee of Southwark Council

We were pleased to have had the opportunity to meet with you on 19 November 2025 to discuss the results of our audit of the financial statements of Southwark Council (the 'Council'), as at and for the year ended 31 March 2025.

This report should be read in conjunction with our indicative audit plan and strategy report, presented on 2 June 2025.

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management; and,
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

There have been no significant changes to our audit plan and strategy since our indicative plan and strategy report dated 2 June 2025, other than as set out on page 5.

We issued an unmodified Auditor's Report. However, we will be unable to issue our Audit Completion Certificate until work in respect of an objection received has been completed, and the NAO has completed their work over the Whole of Government Accounts.

We draw your attention to the important notice on page 4 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,



Fleur Nieboer

22 December 2025

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Fleur Nieboer (fleur.nieboer@kpmg.co.uk), the engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with the response, please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Tim Cutler. (tim.culter@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access KPMG's complaints process here: Complaints.

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Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the consolidated financial statements of Southwark Council (the 'Council/Authority'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, as at and for the year ended 31 March 2025.

This Report has been prepared for the Council's Audit, Governance, and Standards Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Council's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is complete.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit, Governance, and Standards Committee of the Council; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

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Our audit findings

Significant audit risks		Pages 7 – 13
Risk	**Risk change**	**Our findings**
Valuation of council dwellings	No change	We identified a corrected factual £29m understatement of the valuation due to an error in the application of the valuation judgements and improvement opportunities for controls and processes. See below for judgements.
Management override of controls	No change	We have not identified any instances of management override of controls in our work.
Valuation of post retirement benefit obligations	No change	The results of our testing were satisfactory. We have not identified any issues in relation to the significant assumptions used within the valuation of the LGPS gross pension liability.

Key accounting estimates		Pages 16 – 17
Fair value of council dwellings	Balanced	We assessed as reasonable the assumptions underpinning the valuation.
Fair value of land and buildings	Balanced	We assessed as reasonable the assumptions underpinning the valuation.
Fair value of investment property	Cautious	We assessed as cautious the assumptions underpinning the valuation.
Present value of defined benefit (DB) obligations	Optimistic	We assessed as optimistic the assumptions underpinning the valuation, however overall the assumptions were within our acceptable range.
Fair value of DB plan assets including asset ceiling	Balanced	We assessed as reasonable the assumptions underpinning the valuation.

Uncorrected audit misstatements		Page 19
Understatement/ (overstatement)	**£'000s**	**%**
Revenues	-	-
Surplus for the year	9.0	266.6
Total assets	-	-
Total reserves	9.0	0.2

Uncorrected misstatements in respect of disclosures	Page 19
Disclosure	**Our findings**
None	

Number of control deficiencies	Page 18
Significant control deficiencies	1
Other control deficiencies	3
Prior year control deficiencies remediated	11

Outstanding matters

Our audit is complete.

However, we will be unable to issue our Audit Completion Certificate until work in respect of an objection received has been completed, and the NAO has completed their work over the Whole of Government Accounts.

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Changes to our audit plan

We have not made any changes to our audit plan as communicated to you on 2 June 2025, other than as follows:

Risk	Effect on audit strategy	Effect on audit plan
Transition to IFRS 16	We no longer consider this to be an other audit risk, as was set out in our plan dated 2 June 2025. This is because, having performed a detailed risk assessment and evaluation of the Council's approach to transitioning to IFRS 16, we concluded that the risk of a material misstatement was remote.	• As we removed the risk from our audit strategy, a detailed response in respect of transitioning to IFRS 16 was no longer required. • In reaching our final assessment we considered the Council's approach to identifying a complete population of leases (including leases embedded into other forms of contracts); setting discount rates in lease calculations; and identification of lease terms. We considered the Council's approach to these matters indicating there was no realistic risk of a material error arising.

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Significant and higher assessed audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

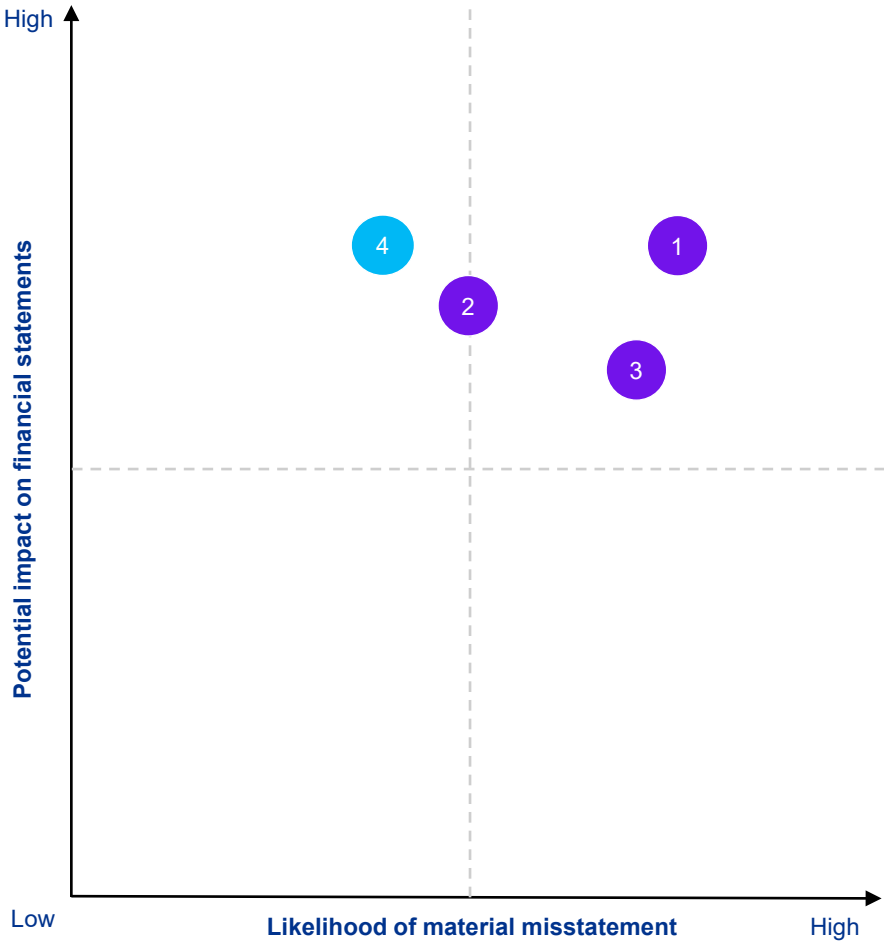
Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which Southwark Council operates.

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

See the following slides for the cross-referenced risks identified on this slide.

Significant audit risks	
1.	Valuation of council dwellings
2.	Management override of controls
3.	Valuation of post retirement benefit obligations

Higher assessed audit risks	
4.	Valuation of investment property



Key: # Significant financial statement audit risks # Higher assessed / other audit risks

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Audit risks and our audit approach

1 Valuation of Council Dwellings

Risk of error related to the incorrect calculation of valuation adjustments for housing dwellings



Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Council is re-valuing all its dwellings this year. The value of the dwellings at 31/3/25 was £3.6bn.

A risk is presented for those assets that are revalued in the year, which involve significant judgement and estimation made by the engaged valuer on the Council's behalf. This is on account of the judgement involved in the selection of assumptions including but not limited to identification of comparative properties when valuing individual beacons.

In the prior period we identified that this estimate was cautious on account of contradictory evidence we identified for one beacon sampled. This was compounded by the large number of properties in that beacon as compared to other beacons within the valuation meaning the range of potential valuation errors was very wide.

Continued overleaf…

Key:
Prior year | Current year

Our response

We performed the following procedures designed to specifically address the significant audit risk associated with the valuation:

- We critically assessed the independence, objectivity and expertise of Cluttons, the valuers used in developing the valuation of the Council's properties at 31 March 2025;
- We evaluated the design and implementation of controls in place for management to review the validity and outcome of the valuation reached, and to ensure that beacon and sub-beacon groups had been appropriately defined;
- We assessed the validity of the beacon and sub-beacon groups defined by, for a sample of such groups, assessing whether the properties within the groups are homogenous in nature;
- We challenged the appropriateness of the valuation of dwellings on a sample basis with reference to available market data for comparable assets in a similar location;
- We used our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology and assumptions utilised; and
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

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Audit risks and our audit approach

1 Valuation of Council Dwellings

Risk of error related to the incorrect calculation of valuation adjustments for housing dwellings



Significant audit risk (cont.)

Continued from previous page…

Our identification of this risk reflects that the Council Dwellings make up the largest part of the land and buildings balance, and the valuation approach used means that should an error in valuing a small number of beacons arise, it can have a significant impact on the valuation as a whole.

Key:
Prior year
Current year

Our findings

- We were satisfied with the independence, objectivity and expertise of Cluttons. This is the second year that Cluttons have valued the Council's estate and has benefitted from greater familiarity and knowledge of the nature of the Council's assets.
- Consistent with last year, we identified weaknesses in the Council's controls to review the asset valuations and ensure they were prepared using an appropriate methodology. In particular, in selecting our sample for detailed testing Cluttons identified a typographical error in the valuation of one beacon. When extrapolated across the beacon group, a factual £29m understatement of the value of dwellings was identified. This error could have been avoided through a more rigorous review and assessment of the valuations prior to recording within the financial statements. We note that the valuations were received close to the publication date of the accounts which would have reduced the time available for review. We further note this error was not due to valuer judgement or estimation uncertainty.
- Government guidance is that beacon groups should typically contain a maximum of 600 properties to ensure that beacons accurately reflect homogenous groups of geographically close properties. Southwark has nine beacons with over 600 properties, of which the largest contains 2,244. There are 263 beacons in total. There is a risk that these larger beacons may not accurately represent the estate being valued. However, we acknowledge that Southwark has a very large estate and therefore there may be valid grounds for large beacons. Our investigation found that the larger beacons are generally tightly geographically defined and are therefore acceptable. The exception was the 2,244 beacon which was spread over a large area. Cluttons' value for this beacon appropriately reflected the geographic spread of assets and so we considered the valuation to be reasonable. This indicates that the Council may wish to break up these beacons into smaller homogenous units.

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Audit risks and our audit approach

1 Valuation of Council Dwellings

Risk of error related to the incorrect calculation of valuation adjustments for housing dwellings

Cautious — Neutral — Optimistic

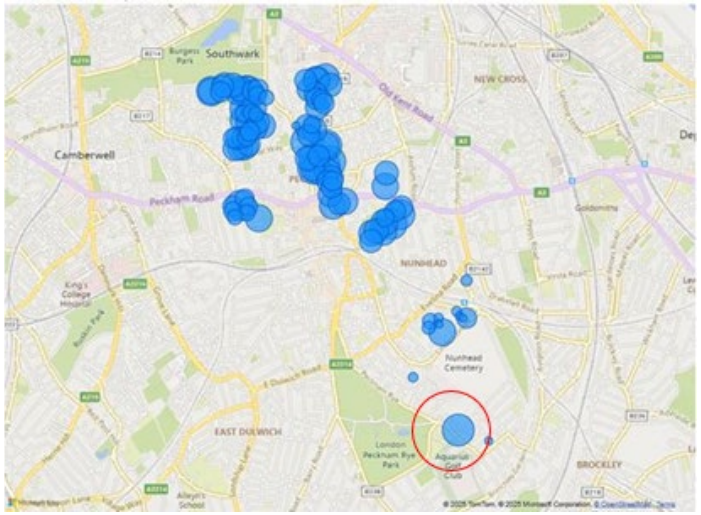
Our findings (cont.)

- For the sample of beacons we picked, we were satisfied with the appropriateness of the methodology and assumptions utilised, including the identification of comparable valuations and judgements applied to reflect asset quality. We considered the valuation to be neutral overall.
- We considered the disclosures made in respect of the valuation to require improvement. The Code, and IFRS more broadly, requires the disclosure of the key subjective assumptions underpinning an estimate and sensitivity disclosures in respect of those assumptions. The Council correctly reflected the valuation of dwellings as a key source of estimation uncertainty however did not set out the detail of the specific assumptions causing uncertainty or sensitivities inherent to them. The Council later enhanced its disclosures by including these details.

Conclusion

We note that there are improvements required to the way the estimate is reviewed prior to recording; to how beacon groups are established; and to how disclosures are made (since made). We also identified a £29m understatement of the valuation which has been corrected. Notwithstanding this, we are satisfied that we have obtained sufficient appropriate audit evidence to address this risk and that the estimate, overall, is balanced.

To further illustrate the finding regarding beacon grouping, we have set out the spread of properties in the largest beacon referred to on the previous page. A large geographic spread of properties can be seen. A property in the highlighted location is the beacon used as a proxy for the valuation of all the properties in the group. This location is a long distance away from the locations of the bulk of the properties within the beacon group.



Key:
Prior year | Current year

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Audit risks and our audit approach

2 Management override of controls

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

Professional standards require us to communicate the fraud risk from management override of controls as significant.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have also identified weaknesses in the control environment for journal entries, including over-privileged user access to the Council's general ledger system.

In our audit plan we said we would assess the business rationale and the appropriateness of the accounting for significant transactions that are outside the Council's normal course of business, or are otherwise unusual. We did not perform this procedure as we found no transactions which met this definition.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our response

Our audit methodology incorporates the risk of management override as a default significant risk. We performed the following procedures:

- Assessed accounting estimates for bias by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias;
- Evaluated the selection and application of accounting policies;
- Evaluated the design and implementation of controls over journal entries and post closing adjustments;
- Evaluated the design and implementation of controls in place for the identification of related party relationships;
- Tested the completeness of the related parties identified and ensure any transactions arising with those parties are appropriately disclosed within the financial statements;
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates; and
- Analysed all journals through the year using data and analytics and focused our testing on those with a higher risk, such as journals which transfer expenditure out of the Housing Revenue Account and into the General Fund.

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Audit risks and our audit approach

2 Management override of controls

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In our audit plan we said we would assess the business rationale and the appropriateness of the accounting for significant transactions that are outside the Council's normal course of business, or are otherwise unusual. We did not perform this procedure as we found no transactions which met this definition.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our findings

- For our view on accounting estimates, see pages 16 – 17.
- We have considered the Council's accounting policies in the round. We have not identified any indication of management bias or inappropriate accounting policies.
- We identified a weakness in journal entries because there are routes by which journal entries can be posted without authorisation or segregation of duties. This is typical of many large organisations and the Council is satisfied it has adequate mitigations for the risks posed. As this finding is common for many authorities, we have not had to vary our audit approach as we assume that controls are ineffective.
- We have not identified any findings regarding the nature and accounting of related party transactions.
- Our testing of high-risk journal entries identified 22 journal entries which met our high-risk criteria. We did not identify any inappropriate journal entries.

Conclusion

We have not identified any instances of management overriding internal controls.

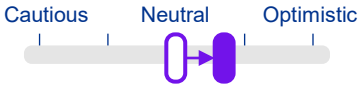
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Audit risks and our audit approach

3 Valuation of post retirement benefit obligations

Risk of error related to the incorrect valuation of defined benefit plan liabilities



Significant audit risk

The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.

In addition, the Council's pension memberships are in a net surplus position, leading to judgements being required as to the quantum of any asset ceiling which should be calculated, and hence whether an asset should be recognised on the balance sheet

The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year-on-year movements.

Continued overleaf…

Key:
Prior year
Current year

Our response

We performed the following procedures:

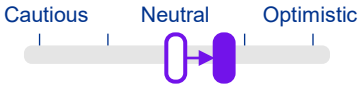
- Understood the processes the Council has in place to set the assumptions used in the valuation;
- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirmed that the accounting treatment and entries applied by the Council are in line with IFRS and the CIPFA Code of Practice;
- Considered the adequacy of the Council's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions; and
- Assessed the level of surplus that should have been recognised by the Council.

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Audit risks and our audit approach

3 Valuation of post retirement benefit obligations

Risk of error related to the incorrect valuation of defined benefit plan liabilities



Significant audit risk

Continued from previous page…

We have identified this in relation to the Southwark Local Government Pension Scheme. We have not identified the risk in relation to the London Pension Fund Authority liability as its size is small compared to materiality.

In our audit plan we said we would "Assess the impact of a new triennial valuation model and/or any special events, where applicable". We have not performed this procedure as there was no new triennial valuation model or special events during this financial year.

Our findings

- Actuarial assumptions are assessed by management for appropriateness. However, the review was not performed on a sufficiently detailed or documented basis to allow us to rely on the control. Consequently we concluded that controls in place to review the valuation were ineffective, consistent with the prior period. We note the review is considered adequate by management for their own purposes.
- We were satisfied with the independence, objectivity and expertise of the scheme actuary.
- We considered that the assumptions used in valuing the defined benefit obligation and concluded overall to be optimistic compared to our central actuarial benchmarks but within reasonable range.
- The allowance for future improvement has been updated from the CMI 2022 model to the CMI 2023 model to reflect the latest available industry data. The long-term improvement rate has been updated from 1.5% to 1.25% to reflect increased pessimism in the actuary's long-term view on improvements in mortality, partially due to Covid-19. We consider these changes in assumptions to be reasonable.
- The net pension surplus has been restricted to £nil on the basis of estimated future service costs less the estimated minimum funding contributions meaning the surplus is not recoverable. We agree with the basis for restricting the surplus.
- We concluded that the disclosures were acceptable overall.

Conclusion

We note the overall liability to be optimistic but within an acceptable range. Notwithstanding this we are satisfied that we have obtained sufficient appropriate audit evidence to address this risk.

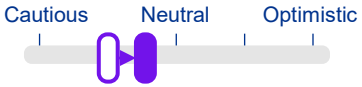
Key:
Prior year
Current year

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Audit risks and our audit approach

4 Valuation of investment properties

Risk of error related to the incorrect valuation of investment properties



Higher assessed audit risk

The Council's investment property portfolio of £303m (as at 31 March 2025) includes a number of commercial rent units, including a large real estate scheme near the Council's offices in London Bridge.

Under the Code these are considered 'Investment Properties' due to the intention of maximising rental values or capital appreciation. The standard requires this class of assets to be valued at each year end.

The valuation is subject to movements based on current market conditions which contain a heightened degree of uncertainty, in particular for commercial offices.

Also, dependent on the type of valuation undertaken, there are a number of assumptions used in the valuation of the assets which are subjective, and could impact the overall valuation at the year end and movement during the year.

Our response

We performed the following procedures:

- Reviewed the portfolio of investment properties, focusing on the accounting treatment and disclosure of these in the financial statements;
- Used KPMG valuation specialists to review the valuation of the Council's investment properties;
- Assessed the competence, experience, and independence of the Council's valuation firm;
- Considered the reasonableness of assumptions that had been made against benchmark data; and
- Verified the accuracy of underlying data, such as tenancies and property details.

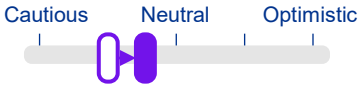
Key:
Prior year
Current year

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Audit risks and our audit approach

4 Valuation of investment properties

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The valuation is subject to movements based on current market conditions which contain a heightened degree of uncertainty, in particular for commercial offices.

Also, dependent on the type of valuation undertaken, there are a number of assumptions used in the valuation of the assets which are subjective, and could impact the overall valuation at the year end and movement during the year.

Key:
Prior year
Current year

Our findings

- We were satisfied with the independence, objectivity and expertise of Cluttons. This is the second year that Cluttons have valued the Council's estate and has benefitted from greater familiarity and knowledge of the nature of the Council's assets.
- We were broadly satisfied with the assumptions underpinning the sample of assets we selected for testing, which consisted of commercial properties and a marina. The exception was in relation to one site near Old Kent Road which we considered to be understated. This is because the Council has not reflected the development potential of the site in the valuation, meaning a buyer (if the Council were to dispose of it) would likely pay significantly in excess of the valuation provided by Cluttons. We have, in reaching this view, considered recent transactions in the local area including of a sale in Folgate in February 2025. We are satisfied that this finding is unlikely to reoccur in the remainder of the population because of the unique nature of this asset and the specific nature of development plans in Old Kent Road generally.
- Our work in relation to underlying factual data to support the valuation found no inaccuracies and supported the correct valuation of these assets.

Conclusion

We identified an understatement of £4.5m which has been corrected due to an asset where, in our view, the valuation was not in line with available market evidence. We were satisfied that the fact pattern relating to this asset was unique and therefore this understatement was not representative of the portfolio as a whole. Consequently, we are satisfied that we have obtained sufficient appropriate audit evidence to address this risk.

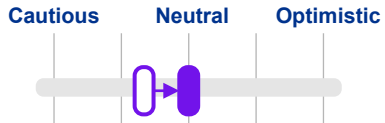
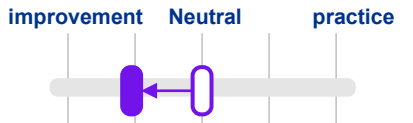
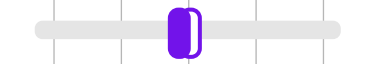
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Key accounting estimates and management judgements– Overview

Our view of management judgement

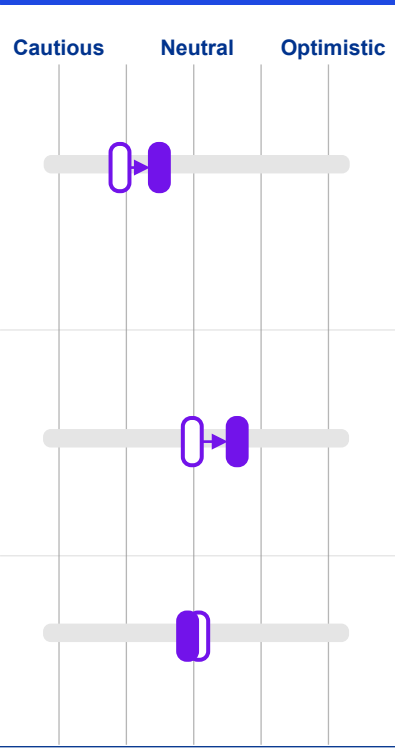
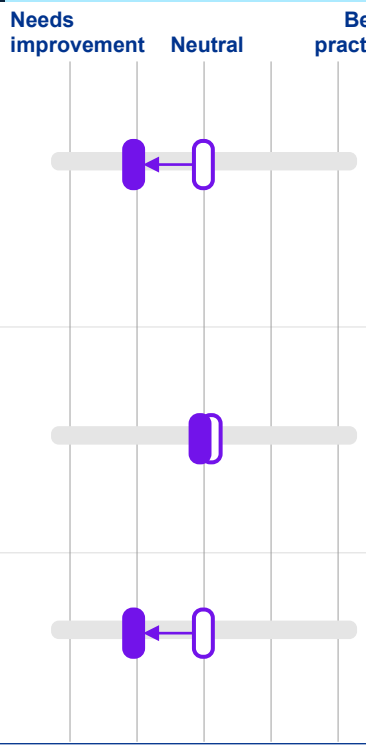
Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.



Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Asset 1 Council dwellings		3,572	180		In respect of dwellings and non-specialised assets, we were satisfied that the valuation was balanced based on the comparable evidence reviewed. In respect of dwellings we did identify an understatement driven by an error in the valuation model, however we noted this was a factual error not linked to valuer judgement or determination of assumptions. Consequently this finding did not affect our view of management judgement. In respect of specialised assets, we were satisfied that the valuation was balanced based on our assessment of the subjective adjustments used in the valuations (namely build cost rates and obsolescence) as compared to our knowledge of the assets, the Council as a whole, and our experience with the valuers methodology. In respect of disclosure, the Council should have provided greater detail on specific assumptions which contain the highest degree of estimation uncertainty and sensitising those assumptions. These disclosures have subsequently been added to the financial statements.
Asset 2 Land and buildings - specialised					
Asset 3 Land and buildings – non-specialised		1,169	(19)		

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Key accounting estimates and management judgements– Overview

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Asset 4 Investment properties		303	13		Consistent with the prior period, we identified one property which we considered to be understated based on available comparable data This has been amended. No issues were identified in other properties, and we considered the fact pattern to be unique to that one property meaning we were satisfied the estimate was not cautious overall. In respect of disclosure, this estimate was not disclosed as a key source of estimation uncertainty which is inconsistent with the judgement involved in determining the valuation.
Asset 5 Defined benefit plan assets – LGPS – including impact of asset ceiling		(1,590)	238		We did not identify any issues with the assumptions underpinning the valuation of the asset or in determining the application of the asset ceiling which restricts the net pension asset to £nil. In respect of the liability, we found the assumptions to be optimistic due to an optimistic determination of inflation adjustments. We, however, noted the assumptions fell within our acceptable range and so considered them appropriate. We considered the disclosures to be acceptable. The most significant adjustment made to disclosures was to detail the impact on pass-through arrangements on the Council's pension fund balances.
Asset 4 Defined benefit plan obligations – LGPS		1,590	(238)		

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Other significant matters

Control deficiencies

We obtain an understanding of internal control to design appropriate audit procedures, but not to express an opinion on the effectiveness of the Council's internal control.

Key:

- These are significant control deficiencies which increase the likelihood and potential magnitude of a material misstatement in the financial statements. We have identified no significant control deficiencies in the current year but note one outstanding prior year deficiency.
- These are matters of sufficient importance to note such as weaknesses which were subsequently corrected and matters that could be significant in the future if left unaddressed. We have identified two such deficiencies in the current year and one outstanding prior year deficiency.
- These are less significant weaknesses but which we considered to be of sufficient importance to merit management's attention. We have raised no related observations in the current year.

Beacon valuations (recurring)

- At Southwark, there are several beacon groups used in the valuation of dwellings in excess of 600 properties. MHCLG guidance is that there should not normally be over 600 dwellings in a beacon group. In most cases this reflects the size of the Council's estate.
- However, we identified one beacon with a wide spread of properties which suggests the beacon might not be appropriately configured (see page 9). The valuation did, however, allow for this wide geographic spread.

Management response: The Council uses over 1,200 beacons and sub-beacons to group approximately 38,000 dwellings based on property similarities, enabling more accurate and robust valuations through detailed analysis rather than fixed group sizes.

Valuation review (recurring)

- A misstatement was identified in the dwelling valuation because of a transposition error made in the valuation sheets, meaning the wrong year's figure was pulled through into the valuation journal.
- We recommend that the Council introduces a granular review of the valuation on a beacon-by-beacon basis to prevent a similar error arising in the future

Management response: For the 2025/26 financial year, the valuation process has started earlier with enhanced controls—including locked spreadsheet fields and dual-authorisation—to enable thorough review of significant movements and ensure greater accuracy and integrity.

SAP access (recurring)

- We continued to identify over-privileged access to the SAP system. The working practices in respect of SAP access are antiquated and not in line with current best practice.
- We appreciate that the Council is replacing its SAP system and therefore it is unlikely significant improvement will be made until the new system is implemented. Consequently we have not re-raised our prior period recommendations in respect of SAP access, training, and controls.

Management response: This control deficiency will be addressed as part of the SAP replacement project.

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Significant audit misstatements

Management has approved the correction of the audit misstatements detailed on page 37 and they are reflected in the draft financial statements. A summary of the uncorrected audit misstatements is detailed on page 36.

The misstatements identified, and their estimated financial impact on the surplus on provision of services, are summarised in the table on the right. Misstatements affecting solely the balance sheet and/or other comprehensive income are set out in the appendix.

In line with ISA (UK) 450 we request that you correct uncorrected misstatements.

- If the uncorrected factual audit misstatements were posted, they would decrease the deficit on provision of services by £9m.
- For our views on management estimates – see Pages 16 – 17 (Key accounting estimates)
- A detailed summary of corrected and uncorrected audit misstatements and omissions and errors in disclosure is included in the appendix.

Audit misstatements – Deficit on provision of services	Type	£'000s	Comment
Trial balance		(3,377)	
Corrected misstatements			
Investment property	Judgemental	(4,530)	The value of one investment property could not be supported by market comparatives. We therefore believe the valuation of this investment property was incorrect. This has no impact on outturn.
Dwellings	Factual	90,934	An input error in the valuation of one beacon meant that the incorrect value was recorded for circa. 700 assets, resulting in an overstatement of the valuation. This has no impact on outturn.
Reported in FS		83,027	
Uncorrected misstatements			
Pensions contributions	Factual	(9,007)	The Council has created an accrual to pay backdated pension contributions to staff who were erroneously not auto-enrolled into the LGPS. However, the Council did not have an accounting obligation to do so at the balance sheet date as it had not yet informed the affected staff.
Our assessment		74,020	

Types of misstatement

Factual: Misstatements about which there is no doubt

Projected: Our best estimate of misstatements in the audited populations

Judgemental: Differences arising from judgements of management that we consider unreasonable or inappropriate

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Other matters

Narrative report

We have read the contents of the Narrative Report and checked compliance with the requirements of the Annual Report and financial statements with the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 ('the Code'). Based on the work performed:

- We have not identified any inconsistencies between the contents of the Narrative Report and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the statements of the Council.

As Audit and Governance Committee members you confirm that you consider that the Narrative Report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council's performance, model and strategy.

Annual Governance Statement

We have reviewed the Council's 2024/25 Annual Governance Statement and confirmed that:

- It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Group audit

There has been no change to the scope of our group audit communicated as part of our indicative audit plan and strategy report, presented on 2 June 2025. Our procedures were focused on the Council excluding schools where accounting is processed outside of the Council's finance team. All audit work was performed by the group engagement team.

Whole of Government Accounts

As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack.

We are yet to receive instructions from NAO regarding WGA.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our scale fee for the 2024/25 audit, as set by PSAA is £591,009 plus VAT. See page 32 for details and status of fee variations.

We have also completed non audit work at the Council during the year in relation to central government returns the Council is required to make and be inspected by a firm of accountants. We have included in the appendix confirmation of safeguards that have been put in place to preserve our independence.

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Value for money

Value for Money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We have prepared a draft of our Auditor's Annual Report and a copy of the draft report is included within the papers for the Committee alongside this report. We have not yet finalised our commentary on the your arrangements because of work we are undertaking in response to an objection, the result of which may have a material bearing on our commentary. The final report, once issued, is required to be published on your website alongside the publication of the annual report and accounts.

Response to risks of significant weaknesses in arrangements to secure value for money

As noted on the right, we have identified two risks of a significant weakness in the Council's arrangements to secure value for money. Overleaf we have set out our response to those risks.

Within our Auditor's Annual Report we set out our recommendation in response to the significant weakness we have identified.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	No significant risks identified	No significant weaknesses identified
Governance	Two significant risks identified	One significant weakness identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

Further detail is set out in our draft Auditor's Annual Report.

Performance improvement observations

As part of our work we have identified three Performance Improvement Observations, which are suggestions for improvement but not responses to identified significant weaknesses – see page 25.

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Significant Value for Money Risk

1 Major Works

Risk that value for money arrangements may contain a significant weakness linked to governance and improving economy, efficiency and effectiveness

Significant Value for Money Risk

Allegations raised in the prior period from media reports and other information received by us stated that multi-million pounds of money was paid by the Council to contractors without adequate controls to ensure money was well spent and that contractors were performing against contractual commitments.

After year-end, we became aware of a detailed review into two major works that took place during the year which identified substantial systematic weaknesses in controls in respect of major works schemes, where there is a realistic risk that the Council systematically does not have appropriate governance arrangements in relation to contract management, nor appropriate arrangement to ensure that capital investment is done in an economical, efficient, and effective manner.

Alternatively, if effective governance arrangements are in place over these contracts, there is a risk that the contracts do not allow the Council to efficiently and effectively discharge its major works responsibilities.

We have therefore identified a significant VFM risk that the Council may not have appropriate arrangements in place in relation to managing contracts of this nature.

Our response

We will evaluate the extent to which the findings raised by the Task and Finish Team indicate either further weaknesses in controls since the prior period audit, or whether there is evidence of the control environment strengthening.

Our findings

There were no major works schemes to assess improvement in contract management controls at over 2024/25. This is because there were no substantial schemes (as opposed to routine maintenance) beyond a scheme at the Consort Estate which had only just commenced in March 2025.

The Task and Finish Team (TFT) report published shortly after year-end notes that the schemes subject to review were not underway, beyond defect resolution, during 2024/25. Our value for money responsibilities only relate to the arrangements in place during 2024/25 and therefore the TFT report does not present evidence of any significant weaknesses in arrangements during 2024/25.

Consequently there was no opportunity for the Council to either demonstrate improvements in the control environment since 2024/25, or any evidence of a significant weakness in contract management arrangements during 2024/25.

In conclusion we have not identified any significant weaknesses in arrangements in relation to this risk during 2024/25. For the same reason we are also unable to assess if our prior year recommendation has been implemented.

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Significant Value for Money Risk

2 RSH breaches

Risk that value for money arrangements may contain a significant weakness linked to governance

Significant Value for Money Risk

During 2024/25, the Council received a damning judgement from the Regulator of Social Housing, raising several concerns including, but not limited to, building safety concerns; unfairness in the housing allocations policy; and poor governance of TMOs.

At the time the RSH decided not to take enforcement action against the Council because there was a clear commitment by the Council to putting things right.

However, if the Council does not have an adequately governed arrangement to improve its housing service, there is a risk of future penalty by the RSH, as well as a worsening quality of service for Southwark residents.

We have therefore identified a significant VFM risk that the Council may not have appropriate governance arrangements in place to ensure the successful resolution of the RSH's concerns.

Our response

Assess the governance arrangements the Council has implemented to respond to the RSH's findings. Assess whether there is an adequately developed action plan, including clear actions with monitoring to ensure they are successfully implemented.

Our findings

Whilst this is not a guarantee that the Council will be able to obtain a compliant grading from the RSH, we have seen evidence that the Council has adequately developed an action plan to rectify the issues raised by the RSH, the action plan contains relevant actions, and there is appropriate governance to ensure its successful delivery.

However, a key element of the RSH's finding is a lack of stock condition survey. The lack of this survey means the Council is unable to ascertain the extent to which its housing estate is fit for purpose, or the quantum of works required to bring its estate into good condition.

Consequently there is a risk that the Council does not have effective measures to manage the quality of its estate, handle expectations of residents, or satisfy the RSH's expectations in respect of property condition and compliance with the consumer standards.

Conclusion

Based on the findings above we have identified a significant weaknesses in arrangements

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Value for Money: Performance improvement observations

The performance improvement observations raised as a result of our work in respect of identified or potential significant value for money risks in the current year are as follows:

Priority rating for observations		
1 **Priority one:** Observations linked to issues where, if not rectified, these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2 **Priority two:** Observations linked to issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.	3 **Priority three:** Observations linked to issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	1	**Major works** The Council has developed a new approach to managing major works schemes and has rolled out this approach on a trial scheme over the course of 2024-25. The intention is then to apply this new approach on schemes throughout 2025-26 and beyond. The Council has, however, not assessed if this new approach is working effectively and mitigating the issues that arose on the Devon Mansions and Canada Estate schemes. Therefore, there is a risk the same issues could re-occur. The Council should obtain independent scrutiny of its new approach to major works schemes, such as through an Internal Audit review, and consider any findings prior to rolling out the new approach more broadly.	See page 27
2	1	**Tenant Management Organisations (TMOs)** The Council has developed and implemented new governance arrangements for overseeing TMOs and has identified new indicators of non-compliance or weakness that the Council has been able to take timely action to resolve. However, the Council has not yet set out its plans or intentions for ensuring any backlog of cyclical works are to be performed where TMOs were paid to perform the works but they did not happen. The Council should set out its intentions to members and the public in the interest of transparency. The Council should also regularly report progress in embedding new governance arrangements for TMOs to ensure there is scrutiny of progress and any other issues arising, until such a time that TMOs are regularly complying with their contractual obligations.	See pages 28 – 29

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Value for Money: Performance improvement observations

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
3	2	**Transformation programmes** The Council is moving away from a savings programme to instead use strategic transformation programmes to achieve savings – including those which cross-cut across several directorates. This is reasonable and demonstrates the Council responding early to the likely impact of funding reform on its resources. The Council has undergone various transformation programmes in recent years, however this is the first time the Council has planned a significant transformation in order to make savings. Consequently, the Council should ensure it has developed sufficient and appropriate governance arrangements to monitor the delivery and outcome of these transformation programmes, and track financial savings as part of ongoing monitoring of the medium-term financial plan (MTFP). This is to help ensure these programmes achieve their desired outcome in terms of supporting the MTFP.	See page 30

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Value for Money: Performance improvement observations

Major Works: Management Response

The new approach to managing major works is being led by senior staff employed directly by Southwark over an extended period, who have extensive experience at strategic level to drive through major changes to major works contracts and teams. They have ensured that the lessons learned from the Devon Mansions/ Cananda Estate schemes have been implemented, with staff aware of the issues and changes, a strong focus on residents and ward councillors involved in agreeing the final specification of works, scrutiny of costs, and agreement on any major variations to the works. In addition, a monthly report (the format of which was approved by the residents/ward councillors) is presented to the residents which outlines the works carried out to date, any variations, including the financial impacts of the variations, progress of the works against the original contract timetable and any effect to the programme due to variations or inclement weather. The emphasis is to be transparent with resident' representatives and provide explanations and photographs of the works at each stage. The report is also shared with the Housing Lead Councillor as well as the Chair of the Overview and Scrutiny Committee, as requested by the Chair.

All site instructions are checked and countersigned by Southwark project manager, each major variation is costed before been issued, no specification creep is allowed without senior management sign off and the Head of Strategic Asset Management stating where the funding will come from. A Southwark Quantity Surveyor checks valuations before they are agreed with spot checks on site.

It is envisaged that an audit is carried out by senior managers and residents/ ward councillors in February 2026, when many of the blocks will have had works carried out to them to sufficiently test the robustness of the revised procedures.

The monthly progress meeting is led by staff from the Investment – Design & Delivery team, who will flag up any large variations to the contracts at an early level. In addition on new projects, we are including residents on the panel to procure contractors. We therefore do not think it is appropriate at this time to engage an independent review.

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Value for Money: Performance improvement observations

Tenant Management Organisations (TMOs): Management Response

The legacy issues highlighted in TMO audits, including matters touching and concerning TMO financial governance generally and matters specifically related to the use of the cyclical external redecoration allowances by TMOs, are being addressed with individual TMOs. To date, the TMO Governance team has recovered £1.6 million + VAT from the affected TMOs and there are agreements in place for the affected to return a further £1 million in quarterly instalment repayments by 2027.

TMOs are now required to provide a finance report at each TMO Management Committee meeting. The TMO management committee meetings are tracked via the TMO governance calendar where all TMO agendas and minutes are tracked and filed.

TMO bank statements are physically checked quarterly to review financial activities and the balance recorded for each bank statement. This ensures a more transparent financial management framework and gives an opportunity for the council to monitor income and expenditure trends as well as spot and track unusual transactions.

The TMO Governance team has devised a robust performance monitoring and an efficient financial governance framework to ensure TMOs fulfil their contractual and statutory obligations as set out in the Modular Management Agreement (MMA). I am enclosing a TMO contract monitoring checklist covering 38 areas to probe when conducting TMO monitoring to ensure TMO comply with their statutory and contractual obligations for completeness.

There is now a more comprehensive financial governance regime that scrutinises quarterly MMA allowances paid to TMOs to ensure TMOs spend their allowances on allowable areas of spend as set out in the MMA. All TMOs, depending on the delegated landlord functions, are required to maintain the following bank account accounts:

- **Separate day to day operational bank account** – This is the normal operational business account of the TMO used to conduct its day-to-day business operations.
- **Major works bank account** - Chapter 5, clause 9.1 and 9.2 sets out the requirement of the TMO with a delegated major works function to set up a separate major works bank account reproduced for ease reference, “9.1 The Tenant Management Organisation will set up a Major Works Account, which will be shown on the Tenant Management Organisation’s balance sheet at the end of each Financial Year. The amount included in the Allowances to meet the costs of Major Works (Chapter 2, clause 6) will be deposited in the Major Works Account. 9.2 If a credit balance remains in the Major Works Account when this Agreement ends the balance will be paid over to the Council.”
- **Reserve fund Bank Account** – The TMO reserves fund is set up by the TMOs on behalf of the Council to meet anticipated costs in future years resulting from under-spending on repairs and services, known commitments for future works and costs arising from unforeseen circumstances.
- **Surplus fund Bank Account** – the surplus fund bank account records efficiency savings from staffing and other TMO operational costs or surplus of assets over liabilities . Although the funds in the surplus bank account is owned by the TMO, any spend of the surplus by the TMO must be in accordance with the constitution of the TMO.

All TMOs are required to submit an annual audited account and filed with either Companies House or the Financial Conduct Authority (FCA) and copies sent to the council. To date all 16 TMOs have submitted their audited accounts for 2024/25 financial year.

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Value for Money: Performance improvement observations

Tenant Management Organisations (TMOs): Management Response cont…

TMO Modular Management Agreement performance management and contract monitoring

A bespoke web based TMO Governance and Monitoring App has been developed with the Council's Technology and Digital Services (TDS). The APP is currently in the user acceptance stage, and we aim to start using the APP for TMO governance and monitoring by November 2025. The APP is undergoing rigorous penetration tests as part of the council's robust IT infrastructure management to prevent hacking and protect the council's data.

A bespoke TMO contract monitoring checklist has also been developed, and it is used to carry out the annual TMO A bespoke TMO contracting monitoring checklist has been developed with the Council's external auditors, BDO and the TMO Governance team. This checklist is used to carry out yearly audits of all the 16 TMOs and enclosed for ease of reference.

A TMO Performance Data Analyst has been in post since April 2025 and has now produced the first quarter TMO Performance Dashboard enclosed for ease of reference.

The TMO Governance calendar is also enclosed to show all TMO Governance meetings as well as evidence that the council is attending TMO Governance meetings to ensure oversight and scrutiny of TMOs and holding TMOs to account for the delegated housing management functions.

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Value for Money: Performance improvement observations

Transformation programmes: Management Response

The council has a governance structure in place to support council wide transformation which is facilitated by the Corporate Change team, led by the Corporate Transformation and Efficiencies Board (CTEB) and supported by a Director Champions Group and Transformation & Efficiencies Delivery Group (TEDG). The board meet regularly, to receive programme updates, discuss progress and make key decisions regarding transformation activity. Financial and non-financial benefits are identified, developed, and tracked at programme level with updates provided to CTEB and member during the year; portfolio lead member meetings, financial monitoring reports to cabinet and assembly and scrutiny committee updates.

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Value for Money: Performance improvement observations

Below we have set out our findings from following up performance improvement observations raised in prior periods:

#	Risk	Issue, Impact and Recommendation	Update as of October 2025
Matters raised during the 31 March 2024 audit			
1	2	**Quality and performance monitoring** We identified that the Council has a performance monitoring arrangement, however the Council's performance against the KPIs it has determined are not subject to scrutiny by any public part of the governance structure. Furthermore, we could not tell if the Council took the views of external stakeholders when designing these KPIs. This scrutiny is important in ensuring the Council meets the commitment it makes to residents. If the KPIs are not aligned to the prioritises of service users, there is a risk that the KPIs do not measure the right thing. We recommend that the Council takes its KPI dashboard to Overview and Scrutiny Committee on a regular basis and takes feedback from members as to whether the KPIs are in line with constituent's views.	**Not implemented** KPIs were introduced during Q4 of 2024/25 and therefore we anticipate this finding will be resolved in the next financial year.
2	2	**Risk management** The Council's annual risk paper, as presented to Audit, Governance and Standards Committee in February 2024, stated that the risk register is not formally reviewed by the Corporate Management Team. We also could not see evidence of the risk register being reviewed by Cabinet. We would expect both reviews to take place to ensure that risks are receiving appropriate scrutiny and mitigation, and that officers are held to account for adequately managing risks in their areas. We recommend that the risk register is reviewed by both the Corporate Management Team and Cabinet on a regular basis.	**Not implemented** The Council are still deciding whether this is presented to Cabinet.
3	2	**Tender Waivers** The Council does not currently collate a single register of tender waivers, nor presents such a list for scrutiny by any part of the Council's governance structure. As tender waivers are an area where the Council is at greater risk of not receiving best value in services procured, it is important that waivers are subject to monitoring and oversight, with officers held to account should there be waivers which may indicate the Council is achieving poor value for money. We recommend that the Council centrally collect details on all waivers, and present them for review and challenge by the Audit, Governance and Standards Committee at each meeting.	**Not implemented** The Council has indicated that this will be piloted and then rolled out during 2025/26.

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Value for Money: Performance improvement observations

Below we have set out our findings from following up performance improvement observations raised in prior periods:

#	Risk	Issue, Impact and Recommendation	Update as of October 2025
4	2	**Leisure service performance monitoring** During 2023/24, the Council completed its in-sourcing of leisure services. As a consequence, the Council now operates a leisure service. The in-sourcing arose due to a view that the Council can provide a better quality service more cheaply than the private sector. As the in-sourcing arose due to the Council believing it can achieve superior economy, efficiency, and effectiveness in the leisure service, it is important that the Council has a mechanism to determine whether it is achieving all the benefits it anticipated when approving the business case. We recommend that the Council develop a suite of KPIs for monitoring the economy, efficiency, and effectiveness of the leisure service, consulting with service users to identify what is important to them.	**Not implemented** KPIs were introduced during Q4 of 2024/25 and therefore we anticipate this finding will be resolved in the next financial year.
5	2	**Savings plans** The Council's medium term financial strategy is predicated on the achievement of efficiency plans and, to a lesser extent, income generation activities and changes to the nature of services provided. We could not see any examples of where the Council actively monitors the effectiveness of individual plans beyond the review of the revenue outturn on a regular basis. Whilst the Council is not strongly dependent on the success of savings plans, it is best practice for the Council to individually monitor plans to ensure that a) they are achieving the desired financial benefit, and b) there is no unacceptable reduction to the quality of services. We recommend that this review is built into the Cabinet's review of the revenue outturn reports.	**Closed** The Council is shifting to the use of strategic transformation programmes to achieve the savings required to remain financially sustainable. Consequently this finding is no longer relevant.
6	3	**Service charges** The Council has received challenge from leaseholders as to the economy, efficiency, and effectiveness of the services they are required to pay for under leasehold law. Under that law, leaseholders are required to pay whatever a valid demand from the landlord (i.e. the Council) says, although they can challenge that demand at tribunal. Many landlords engage a firm of accountants or internal audit to perform procedures or an audit over service charge statements in order to confirm they are properly prepared in accordance with leases. As part of the Council's efforts to rebuild trust with leaseholders, we encourage the Council to consider whether such an exercise may be valuable.	**Closed** The Council has not elected to take this suggestion forward.

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Value for Money: Performance improvement observations

Below we have set out our findings from following up performance improvement observations raised in prior periods:

* As raised by the predecessor auditor, Grant Thornton.

#	Risk	Issue, Impact and Recommendation	Update as of October 2025
Matters raised prior to the 31 March 2024 audit			
7		We* recommend the Council undertakes its own analysis of its relative level of reserves and its policy towards earmarked reserves in comparison to peer councils, in order to test its reserves strategy.	**Implemented**
8		The Council should consider including an independent member with accounting experience to the Audit, Governance & Standards Committee.	**Closed** The Council has not elected to take this suggestion forward.
9		The Council should prioritise the review of the procurement service including Contract Management to ensure it is fit for purpose and ready for the implementation of new procurement legislation in early 2024.	**Closed** The Procurement Act is now in force and we have not identified any issues in respect of procurement.

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Appendix

Required communications

Type	Response
Our draft management representation letter	We do not intend to request any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2025.
Adjusted audit differences	There were two adjusted audit differences with a surplus impact of £nil. See page 41.
Unadjusted audit differences	The aggregated deficit impact of unadjusted audit differences identified would be to decrease it by £9m. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 40.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit to date within this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	No actual or suspected fraud involving Council management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Issue a report in the public interest	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters based on our work to date. However, as we are currently investigating an objection our conclusion in this are is subject to the completion of that work.

Type	Response
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	None.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the statement of accounts.
Breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate, and the firm have complied with relevant ethical requirements regarding independence.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We believe these are appropriate.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit were discussed, or subject to correspondence, with management.
Certify the audit as complete	We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above. We will provide an update at the completion of our work.

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Fees

Audit fee

Our fees for the year ending 31 March 2025 are set out in the PSAA Scale Fees communication and are shown below.

	2024/25	2023/24
Scale fees as communicated by PSAA	591,009	555,885
Fee variations agreed	-	70,536
Total audit fees	**591,009**	**626,421**

The Pension Fund audit fee as £88k. Full details are included in the Year End Report in respect of the Pension Fund audit.

Billing arrangements

Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

If we identify any fee variations upon the completion of our work, we will agree these with management and report them at a later date.

We anticipate fee variations being required in respect of our work in relation to significant value for money risks; objections; and in respect of new accounting and auditing standards for 2024/25.

Prior period fee variations

Fee variations were agreed by PSAA for the prior period as follows:

- New auditing standards: £18,000.
- First year audit work on PFI schemes: £11,479.
- Work in respect of prior period adjustments: £5,870.
- Work in respect of complexities in valuation work: £8,700.
- Technical accounting issues: £7,629.
- Value for Money risks: £9,282.
- Work of internal experts: £9.576.

Total: £70,536 (12% of scale fee).

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Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit and Governance Committee members

Assessment of our objectivity and independence as auditor of Southwark Council

Professional ethical standards require us to provide to you at the completion stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out on the table overleaf.

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Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2025 *Relating to March 2024 returns*	Value of Services Committed but not yet delivered *Relating to March 2025 returns*
Other Assurance Services	Agreed upon procedures in relation to the housing benefit subsidy return.	Self review Management	• The work is performed by a separate engagement team to the audit team, and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	94,000	37,200
	Agreed upon procedures in relation to the teachers pension scheme return.	Self review Management	• The work is performed by a separate engagement team to the audit team, and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	6,000	6,300
	Agreed upon procedures in relation to the pooling of housing capital receipts return.	Self review Management	• The work is performed by a separate engagement team to the audit team, and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	6,000	6,300

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Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period. Total fees charged by us can be analysed as

	2024/25	2023/24
	£'000s	£'000s
Audit of Council	591	572
Audit of Pension Fund	86	75
Total audit fees	**677**	**647**
Other assurance services	50	106
Total non-audit services	50	106
Total KPMG fees	**727**	**753**

Application of the Auditor Guidance Note 1 (AGN01)

The ratio of non-audit fees to audit fees for the year was 0.07 : 1 (PY: 0.16 : 1), or 6% which is compliant with Auditor Guidance Note 1 (AGN01). We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year. The non-audit services relate to agreed upon procedures engagements in relation to returns the Council makes to central government, and are permissible under AGN01.

Contingent fees

We confirm that we have complied with the FRC Ethical Standard's prohibition on charging contingent fees for non-audit services to or in respect of an audited entity.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Governance Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP, each member of the audit engagement team, and anyone else within the Firm who can influence the conduct or outcome of this audit engagement is independent within the meaning of regulatory and professional requirements.

This report is intended solely for the information of the Audit and Governance Committee of the Council and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

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Uncorrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit, Governance, and Standards Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Governance Committee, details of all adjustments greater than £1,625k shown below:

Uncorrected audit differences (£'000s)				
No.	**Detail**	**CIES Dr/(cr)**	**Balance Sheet Dr/(cr)**	**Comments**
1	Cr Staff Costs	(9,007)	-	The Council has created an accrual to pay backdated pension contributions to staff who were erroneously not auto-enrolled into the LGPS. However, the Council did not have an accounting obligation to do so at the balance sheet date as it had not yet informed the affected staff.
	Dr Accrued expenses	-	9,007	
Total		**(9,007)**	**9,007**	

The following uncorrected matters in disclosures were identified:

- None

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Corrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit, Governance, and Standards Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Corrected audit differences (£'000s)				
No.	**Detail**	**CIES Dr/(cr)**	**Balance Sheet Dr/(cr)**	**Comments**
1	Cr Assets Under Construction	-	(8,168)	Some assets sat within Assets Under Construction had been completed but not transferred to operational asset classes. There would also be a depreciation impact as assets are depreciated when operational, however owing to the low value of the assets transferred the depreciation impact is considered inconsequential and not reported.
	Dr Council Dwellings	-	1,049	
	Dr Other Land & Buildings	-	6,455	
	Dr Surplus Assets	-	665	
2	Cr Council Dwellings	-	(28,868)	An input error in the valuation of one beacon meant that the incorrect value was recorded for circa. 700 assets, resulting in an overstatement of the valuation. This has no impact on outturn.
	Cr (Surplus)/deficit on revaluation of non current assets – OCI	(62,066)	-	
	Dr Impairment expense (within net cost of services)	90,934	-	
	Dr Adjustments between accounting and funding basis	28,868	-	
	Cr Revaluation reserve	-	(62,066)	
	Dr Capital Adjustment Account	-	90,934	
2	Dr Investment property	-	4,530	The value of one investment property could not be supported by market comparatives. We therefore believe the valuation of this investment property was incorrect.
	Cr Gains on revaluation of investment property	(4,530)	-	
	Dr Adjustments between accounting and funding basis	4,530	-	
	Cr Capital adjustment account	-	(4,530)	
Total		**-**	**-**	

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Corrected audit misstatements

Updates to disclosures have been made as follows:

- The total rateable value of non-residential premises in Note 2 of the collection fund accounts was overstated by £9.8m.
- Disclosure of sensitivities in respect of the valuations of dwellings, other land and buildings, and investment properties (insofar as is practical) have now been disclosed.
- Correction to the remuneration of one senior officer.
- Disclosure of the makeup of non-current assets within the HRA.

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Control Deficiencies

The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations		
1 **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2 **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3 **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	2	**Beacon valuations** In a beacon valuation methodology, dwellings are grouped into beacons where the value of one beacon is used as a proxy for all the properties in that beacon. MHCLG guidance is that the maximum number of properties in a beacon group should be 600, although the guidance acknowledges there will be occasions where this is exceeded in the case of very large estates. At Southwark, there are several beacon groups in excess of 600 properties. In most cases this reflects that Southwark has a very large estate and we were able to evidence that most of these large beacons had a concentrated number of properties within a small geographic area. However we identified one beacon with a wide spread of properties which suggests the beacon might not be appropriately configured (see page 9). The valuation did, however, allow for this wide geographic spread. The Council should consider whether its allocation of properties into beacons is appropriate. Should any requirement to adjust the beacons be identified, the Council should reconfigure beacons to ensure that they represent small numbers of geographically concentrated properties.	The Council currently uses over 1,200 beacons and sub-beacons to represent around 38,000 dwellings. Group sizes vary from single properties to larger groupings, depending on how closely the dwellings match in type and characteristics. This approach ensures valuations reflect property similarities rather than aiming for a set number of dwellings per group. The current structure therefore provides greater accuracy and more detailed analysis of the housing stock, supporting a fair and robust valuation process.
2	2	**Review of valuations** A misstatement was identified in the dwelling valuation because of a transposition error made in the valuation sheets, meaning the wrong year's figure was pulled through into the valuation journal. As a consequence the overall valuation was materially incorrect. It is our view that this error could have been identified during review had trends in valuations on a beacon by beacon basis been compared to available market data. This granular review by the Council would help to identify and then rectify any mistakes in the valuation prior to posting the valuation into the ledger. We recommend that the Council introduces a granular review of the valuation in the manner set out here.	For the 2025/26 financial year, the valuation process has commenced earlier to allow sufficient time for detailed reviews of significant valuation movements in collaboration with the external valuer. Additional controls are being introduced, including locking key spreadsheet columns and implementing a dual-authorisation process requiring two valuers to approve any changes to locked data fields. These measures will strengthen the accuracy and integrity of future valuations.

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Control Deficiencies (cont.)

We have also followed up the accepted recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented or closed	Number outstanding (repeated below):
15	11	4

#	Risk	Issue, Impact and Recommendation	Current Status (October 2025)
Matters raised during the 31 March 2024 audit			
1	1	**Journal authorisation** The Council has a process where journal entries require authorisation prior to posting in SAP. Whilst none of the journal entries we selected for testing lacked authorisation, we note that the system – as configured – does not enforce authorisation meaning there is a risk that a journal could be posted without approval. We understand the limitations the Council has identified in the current system meaning they do not believe an approval workflow will be useful. The Council should consider introducing an approval workflow in its replacement finance system.	**Outstanding** The Council is in the process of migrating to a new version of SAP. We would not anticipate the Council making substantial changes to the operation of the existing system due to its imminent replacement and consequently have not re-raised our recommendation.
2	2	**Grant returns** We identified a misstatement in expenditure because the Council had recognised a returned grant as an expense and not as a reduction to income. It transpired that this arose because the cashiers department did not correctly follow the instructions for posting the CHAPS payment. We recommend that the Council finds ways to simplify the way in which information is provided to different teams for processing as we believe this would reduce the likelihood of error. This could be done, for instance, through standardised finance request forms.	**Implemented** We have not identified any similar misstatements this year.
3	2	**IFRS 16** The Council did not have a clear transition plan or policy in place for the transition to IFRS 16. For instance, the Council told us that the impact of IFRS 16 would not be material but did not have a clear basis or calculation to support that view. As IFRS 16 is in effect from March 2025 year-ends onwards, we recommend that the Council develops a clear plan for implementing IFRS 16 as soon as possible.	**Implemented** The Council has now successfully implemented IFRS 16.

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Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Current Status (October 2025)
4	2	**Related Parties** The Council used old declarations of interest as part of identification of related parties, in some cases with the declarations dating back to 2016. In many cases we identified more recent declarations on the Council's website, although we acknowledge these may not have existed at the time of preparing the disclosure. If outdated declarations are used, there is a risk the disclosure in the accounts will be incorrect. We recommend that the Council ensures it always uses the most up to date declaration, and chases members to provide declarations if not up to date during the accounts preparation process.	**Implemented** We have not identified any similar misstatements this year.
5	2	**Document accessibility** The Council found it difficult to locate the audit evidence we required for several audit procedures. This included fees and charges income where the Council found it hard to identify the information needed to evidence revenue recognition under IFRS 15. We appreciate that the Council is a large organisation which means there will always be an element of time to locate documentation. However, if the Council cannot easily locate information, this can generate inefficiencies within departments and make it difficult to comply with Freedom of Information requests in a timely manner. We recommend that the Council investigates ways in which it can be made easier to locate documents, for instance using a document management system.	**Implemented** We have not identified any similar issues in locating documents this year.
6	2	**Treasury accounting** We identified several misstatements relating to treasury accounting because the bank reconciliation process did not identify errors in the ledger where cash transactions were posted out of line with IFRS 9 requirements. In particular, a BACS payment requested but not cleared from the bank was not recorded as a creditor, as IFRS 9 requires. We recommend that the bank reconciliation process is reviewed to ensure that reconciling items which indicate journal posting out of line with IFRS 9 are identified and corrected, as opposed to closing simply by virtue of being a timing difference.	**Implemented** We have not identified any similar misstatements this year. We note that revisions to IFRS 9 will be included within 2026/27 CIPFA Code and therefore the Council should re-visit its approach again at that time.

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Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Current Status (October 2025)
7	2	**SAP training** We identified that the configuration of the Council's SAP system is not in line with current best practice, such as in relation to security configuration. Discussions with the SAP team established that they may not have access to training and resources to ensure they remain abreast of best practice in SAP. We recommend that the Council identifies ways to up-skill the SAP team and ensure they have access to up to date resources and training.	**Outstanding** The Council is in the process of migrating to a new version of SAP. We would not anticipate the Council making substantial changes to the operation of the existing system due to its imminent replacement and consequently have not re-raised our recommendation.
8	2	**Valuation inspections** Very few of the Council's buildings were physically inspected by Cluttons as part of the valuations process. We understand that the valuations process was difficult on account of the amount of time available for the preparation of accounts, however inspections are important to ensure valuations correctly reflect the condition of buildings. We recommend that an inspection regime is introduced for future valuation cycles. Such a regime could involve inspecting a certain percentage of assets each year subject to documented risk criteria.	**Implemented** We have seen evidence of an inspection regime having been put in place this year.
9	2	**Beacons** We identified a cautious valuation in respect of HRA dwellings because we found contradictory evidence for the valuation of one property. It was difficult to determine the extent to which the finding would affect other properties because the beacon group had a very large number of properties in it, approximately 2,000 whereas most beacons have property numbers in the hundreds. We recommend the Council considers whether it has correctly defined its beacon groups and whether there is any merit in splitting beacon groups up to achieve a more precise valuation.	**Outstanding** We have re-raised this recommendation, see page 39.
10	2	**Review of property valuation methodology** Our work over the PPE process did not identify a suitable control to be assessed as a management review control in line with the auditing standards. We did see evidence of review by the Council of individual property valuations however this process was not evidenced. We recommend that in the future, formal records are maintained and followed up with the valuer as valuations are received. We also recommend that ahead of the next revaluation, a paper should be approved by Cabinet or the appropriate Committee which covers the valuation approach. This can then feed into the instructions issued to the valuers and ensures that those charged with governance are aware of and satisfied with the approach.	**Outstanding** We have re-raised this recommendation, see page 39.

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Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Current Status (October 2025)
11	2	**Review of pension valuation methodology** Auditing standards define a management review control to include independent assessment of underlying assumptions by management. As part of our risk assessment procedures, we carried out a walkthrough to obtain an understanding of the pension assumption review process. We identified that there is no criteria or threshold developed for investigation/identification of outliers for pension assumptions. Therefore, although they do review the output of the actuary, there is no evidence of the review. Thus, there is not sufficiently well-defined process in place for it to meet the criteria of an effective review control. We recommend that management document the outcome of their annual review, including taking this to a relevant committee, to demonstrate appropriate challenge of the assumptions underlying the valuation. This should include demonstrating their view of their own assumptions to compare to those provided by the management expert.	**Closed – no further action proposed by the Council** The Council's view is that their approach adequately addresses their risks and consequently is content with their process as it stands. Consequently, this recommendation is outstanding but closed.
12	3	**Expected credit loss (ECL) provisions** The Council has a wide number of ECL provisions reflecting the varying nature of the debt the Council has. We could not identify any central policies or oversight of the approach for setting ECLs. Whilst ECLs should be set in a methodology unique to each form of debt, it would be good practice for corporate finance to set expectations/policies for setting ECLs as part of the closedown guidance for teams.	**Implemented** Based on recommendations from last year, the Council has revised its guidance and policies regarding the setting of ECL as part of the closedown process.
13	3	**Sensitivity disclosures** The CIPFA Code and IFRS requires disclosure of sensitivities for estimates where there is a significant degree of estimation uncertainty. For Southwark, this would be linked to valuations. Sensitivity disclosures should show the impact of changing individual assumptions, such as obsolescence adjustments. We recommend that the Council works with its various valuers to identify ways in which sensitivity disclosures can be calculated and presented.	**Implemented** Disclosure has now been made.
14	3	**Annual review of Pass through arrangements** Our evaluation of the 'pass-through arrangements' with third-party corporate entities indicates that the obligations arising from these arrangements fall within the scope of IFRS 9. However, the Council is currently accounting for these 'pass-through arrangements' under IAS 19 'Employee Benefits'. We have concluded that, provided the balance sheet difference is not material, the Council may continue to account for these 'pass-through arrangements' under IAS 19 'Employee Benefits'. We recommend that the Council provide additional disclosures to explain these 'pass-through arrangements' in detail and conduct an annual assessment of these agreements at the balance sheet date.	**Implemented** We have not identified any similar misstatements this year.

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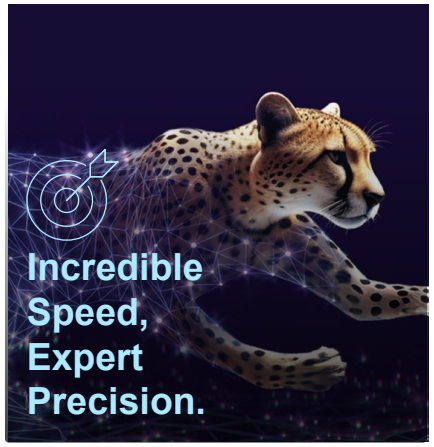
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Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Current Status (October 2025)
15	3	**Council Tax Surplus Calculation** We noted from casting checks performed over the version 1 statement of accounts, that when calculating the monetary figures in Note 4 of the collection fund had been calculated based on rounded percept/council percentages rather than those approved at Council. We recommend that in future periods these percentages are not rounded, and an additional review of this disclosure is conducted by a senior member of the Financial Accounting team.	**Implemented** No similar issues were found in the current year.

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AI Transaction Scoring: A new way of auditing



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Benefits

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Safeguarding quality through next-generation AI

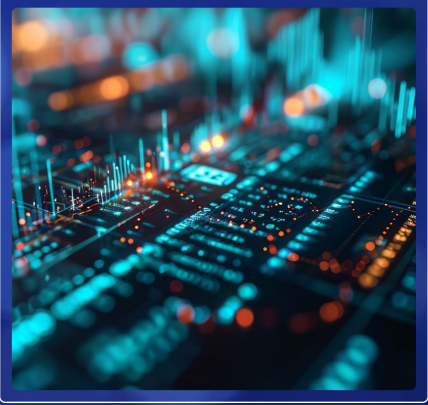
Efficiency through automation and increased focus



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AI Transaction Scoring: Operating Expenses

Operating Expenses



11 Algorithms

01
02
03
04
05
06
07
08
09
10
11

AI Machine Learning

Rules - Based

Statistical Principle

High Score

Medium Score

Low Score

Additional substantive procedures required, either:

- 100% testing
- Statistical Sampling
- Specific Item Testing

We have obtained sufficient substantive evidence as they have returned a sufficiently low score across the 11 algorithms

No additional work required

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AI Transaction Scoring: Results Overview – Operating Expenses

Using our KPMG - AI Transaction Scoring we have tested 100% of social care, DSG-funded, HRA, and other operating expenses transactions.

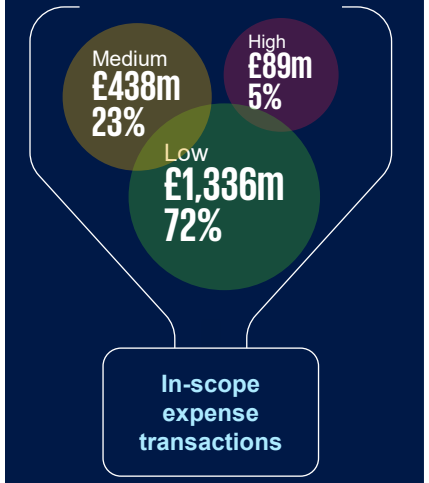
The work enabled us to identify the transactions which fall outside of the expected expenditure patterns, therefore requiring further investigation.

Key highlights include:

- 72% of in-scope transactions during the period were categorised as low risk
- 28% were classified as Medium or High risk and subjected to further procedures
- We were able to gain comfort over a much larger proportion of in-scope expenditure streams than last year, whilst testing fewer samples.

Population Analysed

Results



Insights

KPMG applied AI Transaction Scoring solution over four expenditure streams, for the 2024/25 financial year:

- 72% of expenditure transactions returned a sufficiently low score across the algorithms corroborating our understanding of this population of routine transactions. The robust work from the algorithms enabled us to obtained sufficient cumulative audit evidence, when considered alongside our work on data integrity and related accounts.
- High risk transactions identified included items which follow less routine processes, such as write-offs of irrecoverable debts, PFI charges and REFCUS.
- We selected a sample of medium and high risk transactions to evaluate the accounting and understand whether the transactions were understandable given the nature of the Council, and whether they were indicative of systemic errors in the population.
- We did not identify any misstatements as a result of our work.

Our approach allowed us to validate that the large volume of low value, routine, regular transactions incurred by the Council were appropriately recognised in the financial statements. This gives assurance as to the effectiveness of the Council's expenditure processing arrangements.

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FRC's areas of focus

The FRC released their Annual Review of Corporate Reporting 2023/24 ('the Review') in September 2024 having already issued three thematic reviews during the year.

The Review and thematics identify where the FRC believes companies can improve their reporting. These slides give a high level summary of the key topics covered. We encourage management and those charged with governance to read further on those areas which are significant to their entity.



Key expectations for 2024/25 annual reports

Overview

The Review identifies that the quality of reporting across FTSE 350 companies has been maintained this year, but there is a widening gap in standards between FTSE 350 and non-FTSE 350 companies. This is noticeable in the FRC's top two focus areas, 'Impairment of assets' and 'Cash Flow Statements'.

'Provisions and contingencies' has fallen out of the top ten issues for the first time in over five years. This issue is replaced by 'Taskforce for Climate-related Financial Disclosures (TCFD) and climate-related narrative reporting'.

The FRC re-iterates that companies should apply careful judgement to tell a consistent and coherent story whilst ensuring the annual report is clear, concise and Council/Authority-specific.

Pre-issuance checks and restatements

The FRC expects companies to have in place a sufficiently robust self-review process to identify common technical compliance issues. The FRC continues to be frustrated by the increasing level of restatements affecting the presentation of primary statements. This indicates that thorough, 'step-back' reviews are not happening in all cases.

Risks and uncertainties

Geopolitical tensions continue and low growth remains a concern in many economies, particularly with respect to going concern, impairment and recognition/recoverability of tax assets and liabilities. The FRC continue to push for enhanced disclosures of risks and uncertainties. Disclosures should be sufficient to allow users to understand the position taken in the financial statements, and how this position has been impacted by the wider risks and uncertainties discussed elsewhere in the annual report.

Financial reporting framework

The FRC reminds preparers to consider the overarching requirements of the UK financial reporting framework in determining the information to be presented. In particular the requirements for a true and fair view, along with a fair, balanced, and comprehensive review of the Council/Authority's development, position, performance, and future prospects.

The FRC does not expect companies to provide information that is not relevant and material to users, and companies should exercise judgement in determining what information to include.

Companies should also consider including disclosures beyond the specific requirements of the accounting standards where this is necessary to enable users to understand the impact of particular transactions or other events and conditions on the entities financial position, performance and cash flows.

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FRC's areas of focus (cont.)

Impairment of assets

Impairment remains a key topic of concern, exacerbated in the current year by an increase in restatements of parent Council/Authority investments in subsidiaries.

Disclosures should provide adequate information about key inputs and assumptions, which should be consistent with events, operations and risks noted elsewhere in the annual report and be supported by a reasonably possible sensitivity analysis as required.

Forecasts should reflect the asset in it's current condition when using a value in use approach and should not extend beyond five years without explanation.

Preparers should consider whether there is an indicator of impairment in the parent when its net assets exceed the group's market capitalisation. They should also consider how intercompany loans are factored into these impairment assessments.

Cash flow statements

Cash flow statements remain the most common cause of prior year restatements.

Companies must carefully consider the classification of cash flows and whether cash and cash equivalents meet the definitions and criteria in the standard. The FRC encourage a clear disclosure of the rationale for the treatment of cash flows for key transactions.

Cash flow netting is a frequent cause of restatements and this was highlighted in the 'Offsetting in the financial statements' thematic.

Preparers should ensure the descriptions and amounts of cash flows are consistent with those reported elsewhere and that non-cash transactions are excluded but reported elsewhere if material.

Climate

This is a top-ten issue for the first time this year, following the implementation of TCFD.

Companies should clearly state the extent of compliance with TCFD, the reasons for any non-compliance and the steps and timeframe for remedying that non-compliance. Where a Council/Authority is also applying the CIPFA Climate-related Financial Disclosures, these are mandatory and cannot be 'explained', further the required location in the annual report differs.

Companies are reminded of the importance of focusing only on material climate-related information. Disclosures should be concise and Council/Authority specific and provide sufficient detail without obscuring material information.

It is also important that there is consistency within the annual report, and that material climate related matters are addressed within the financial statements.

Financial instruments

The number of queries on this topic remains high, with Expected Credit Loss (ECL) provisions being a common topic outside of the FTSE 350 and for non-financial and parent companies.

Disclosures on ECL provisions should explain the significant assumptions applied, including concentrations of risk where material. These disclosures should be consistent with circumstances described elsewhere in the annual report.

Council/Authority should ensure sufficient explanation is provided of material financial instruments, including Council/Authority -specific accounting policies.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

Judgements and estimates

Disclosures over judgements and estimates are improving, however these remain vital to allow users to understand the position taken by the Council/Authority. This is particularly important during periods of economic and geopolitical uncertainty.

These disclosures should describe the significant judgements and uncertainties with sufficient, appropriate detail and in simple language.

Estimation uncertainty with a significant risk of a material adjustment within one year should be distinguished from other estimates.

Further, sensitivities and the range of possible outcomes should be provided to allow users to understand the significant judgements and estimates.

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FRC's areas of focus (cont.)

Revenue

Disclosures should be specific and, for each material revenue stream, give details of the timing and basis of revenue recognition, and the methodology applied. Where this results in a significant judgement, this should be clear.

Presentation

Disclosures should be consistent with information elsewhere in the annual report and cover Council/Authority - specific material accounting policy information.

A thorough review should be performed for common non-compliance areas of IAS 1.

Income taxes

Evidence supporting the recognition of deferred tax assets should be disclosed in sufficient detail and be consistent with information reported elsewhere in the annual report.

The effect of Pillar Two income taxes should be disclosed where applicable.

Strategic report

The strategic report must be 'fair, balanced and comprehensive'. Including covering all aspects of performance, economic uncertainty and significant movements in the primary statements.

Companies should ensure they comply with all the statutory requirements for making distributions and repurchasing shares.

Fair value measurement

Explanations of the valuation techniques and assumptions used should be clear and specific to the Council/Authority.

Significant unobservable inputs should be quantified and the sensitivity of the fair value to reasonably possible changes in these inputs should provide meaningful information to readers.

Thematic reviews

The FRC has issued three thematic reviews this year: 'Reporting by the UK's largest private companies' (see below), 'Offsetting in the financial statements', and 'IFRS 17 Insurance contracts –Disclosures in the first year of application'. The FRC have also performed Retail sector research (see below).

UK's largest private companies

The quality of reporting by these entities was found to be mixed, particularly in explaining complex or judgemental matters. The FRC would expect a critical review of the draft annual report to consider:

- internal consistency
- whether the report as a whole is clear, concise, and understandable; notably with respect to the strategic report
- whether it omits immaterial information, or
- whether additional information is necessary for the users understanding particularly with respect to revenue, judgments and estimates and provisions

Retail sector focus

Retail is a priority sector for the FRC and the research considered issues of particular relevance to the sector including:

- Impairment testing and the impact of online sales and related infrastructure
- Alternative performance measures including like for like (LFL) and adjusted e.g. pre-IFRS 16 measures
- Leased property and the disclosure of lease term judgements, particularly for expired leases.
- Supplier income arrangements and the clarity of accounting policies and significant judgements around measurement and presentation of these.

2024/25 review priorities

The FRC has indicated that its 2024/25 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

- Industrial metals and mining
- Construction and materials
- Food producers
- Retail
- Gas, water and multi-utilities
- Financial Services

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KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight (and Risk) Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

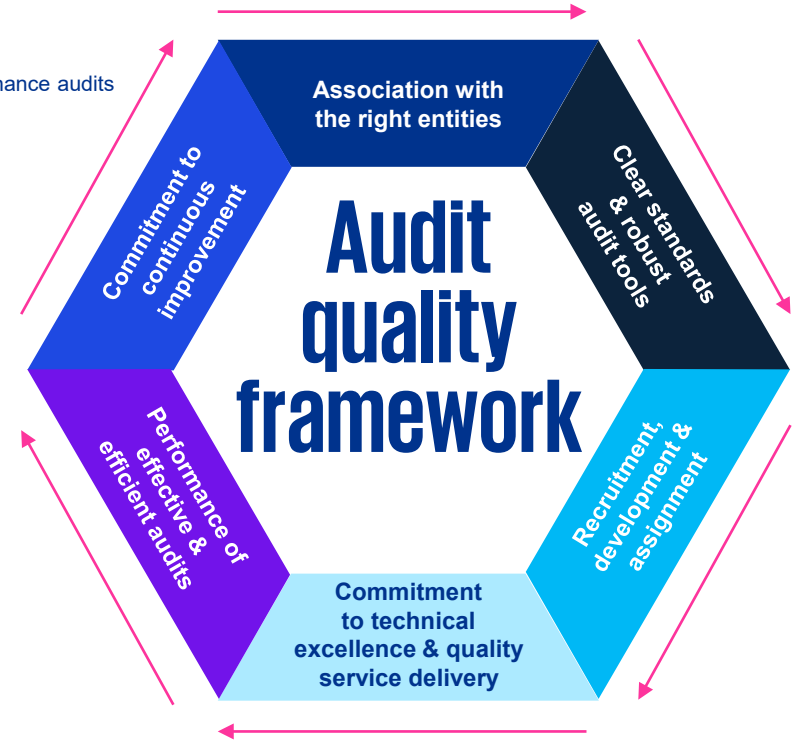
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members

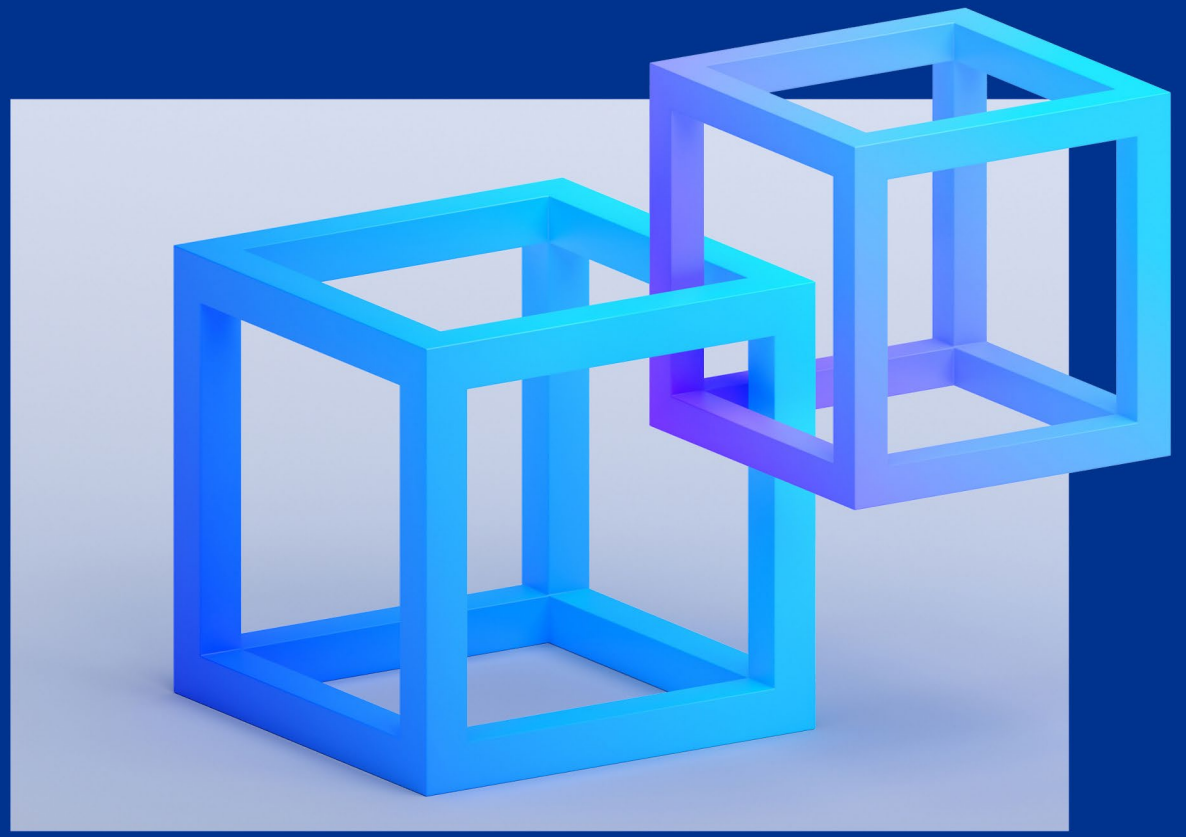
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London Borough of Southwark Pension Fund



Year End Report to the Audit, Governance and Standards Committee

Year end report for the year ended 31 March 2025

Introduction

To the Pension Fund Committee of London Borough of Southwark Pension Fund

We are pleased to have the opportunity to meet with you to discuss the results of our audit of the financial statements of London Borough of Southwark Pension Fund, as at and for the year ended 31 March 2025.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 02 June 2025. We will be pleased to elaborate on the matters covered in this report when we meet.

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG, and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management; and,
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We are committed to providing you with a high-quality service. If you have **any** concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact me (Fleur.Nieboer@kpmg.co.uk), the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with the response, please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Tim Cutler. (tim.cutler@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access KPMG's complaints process here: Complaints.

Subject to the approval of the statement of accounts, we expect to issue an unmodified Auditor's Report.

There have been no significant changes to our audit plan and strategy except the materiality numbers. Materiality in the audit plan was based on total assets as per the 31 March 2024 audited accounts; however, it was updated using revised balances as per the 31 March 2025 draft accounts for audit.

	Planning materiality (based on 31 March 2024 audited accounts)	Final materiality (based on 31 March 2025 draft accounts)
Materiality (1% of total assets)	22.4m	22.6m
Performance Materiality	16.8m	16.9m
Reporting threshold	1.1m	1.1m

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely



Fleur Nieboer

Partner KPMG LLP

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Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of London Borough of Southwark Pension Fund (the "Fund"), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, as at and for the year ended 31 March 2025.

This Report has been prepared for the Administering Authority's Pension Fund Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication on 02 June 2025.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Fund's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is now complete.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit, Governance and Standard Committee of the Administering Authority's; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

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Our audit findings

Significant audit risks		Pages 5–8
Significant audit risks	**Risk change**	**Our findings**
Management override of controls	No change	We have not identified any instances of management override of controls in our work
Valuation of Directly held Property	No change	We have utilised KPMG Real Estate experts as part of our work in this area. The overall valuation is considered as balanced.

Key accounting estimates		Pages 10-12
Valuation of Directly held Property	Balanced	We assessed the assumptions underpinning the valuation as balance.
Valuation of Level 3 Pooled Investment Vehicles	Optimistic	We agreed the value to investment manager confirmations and assessed the NAV statements as reliable. We assessed the assumptions as optimistic mainly due to the overstatement on account of lagged assets. See page 10 for details.
Valuation of Level 1 & 2 Pooled Investment Vehicles and Segregated Investments	Balanced	No issues to report. We verified valuations to independent pricing sources provided by our in-house pricing team. For ULIPs, we verified from fund manager the willingness to transact at the price obtained. For any investment positions our pricing team were unable to obtain an independent price for, we performed retrospective review procedures as an alternative.

Uncorrected audit misstatements		Page 18
Understatement/ (overstatement)	**£m**	**%**
Net assets	(1.60)	(0.07)

Uncorrected misstatements in respect of disclosures	Page 18
Disclosure	**Our findings**
None	

Number of control deficiencies	Page 19
Understatement/ (overstatement)	
Significant control deficiencies	1
Other control deficiencies	2
Prior year control deficiencies remediated	2

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Significant risks and other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which London Borough of Southwark Pension Fund operates.

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

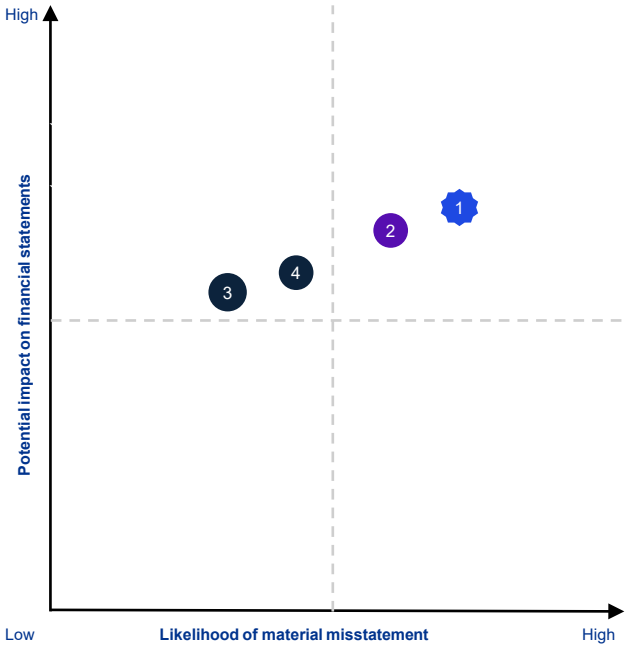
See the following slides for the cross-referenced risks identified on this slide.

Significant risks

1. Management override of controls
2. An inappropriate amount is estimated for the value of directly held property

Other audit risks

3. Level 1, Level 2 and Level 3 investments are not complete, do not exist or are not accurately recorded
4. Valuation of Level 1, Level 2 and Level 3 investments is misstated



KEY

- Presumed significant risk
- Significant financial statement audit risks
- Other audit risks

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Audit risks and our audit approach

1 Management override of controls (a)

Fraud risk related to the unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit

Our response

Our audit methodology incorporates the risk of management override as a default significant risk. We have:

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluated the selection and application of accounting policies
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post-closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the normal course of business or are otherwise unusual.
- Assessed the completeness of the population of journal entries and tested specific journals through the year using our selected high-risk criteria, focusing our testing on those with a higher risk, such as journals with unusual code combinations outside our expectations.

Note: (a) Significant risk that professional standards require us to assess in all cases.

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Audit risks and our audit approach (cont.)

1 Management override of controls (a)

Fraud risk related to the unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit

Our findings

- We have not identified any indication of management override in the year leading to material misstatement or significant concern.
- We identified a weakness in journal entries because there are routes by which journal entries can be posted without authorisation or segregation of duties. This is typical of many large organisations, and the pension fund is satisfied it has adequate mitigations for the risks posed. As this finding is common for many funds, we have not had to vary our audit approach as we assume that controls are ineffective.
- We have reviewed the accounting records and did not identify any significant unusual transactions.
- We have also reviewed management estimates, and the journal entries posted in the period and around the year end. We did not identify any areas of bias in key judgements made by management.
- We performed the screening of journals listing and did not identify any high-risk criteria. Our screening procedures identified journal entries and our examination of these did not identify unauthorised, unsupported or inappropriate entries.
- Our testing over journals is complete and we have not identified any instances of management overriding internal controls. We have been able to satisfactorily address this audit risk.

Note: (a) Significant risk that professional standards require us to assess in all cases.

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Audit risks and our audit approach (cont.)

2 Valuation of directly held property

Cautious — Neutral — Optimistic



Significant Audit risks

- An inappropriate amount is estimated for the value of property due to inappropriate assumptions, errors in the underlying data or inaccurate computation of the valuation estimate.
- The significant risk is driven by the market assumptions due to the subjectivity and complexity involved in their determination. Value of directly held property is c£248.3m as at 31 March 2025.

Our response

- We obtained the property valuation produced by the independent valuer as at 31 March 2025 directly from Nuveen, fund manager who further engage an independent valuer, Knight Frank (the property valuer). We noted no issues with the proposed valuation recorded by management.
- We assessed Knight Frank as a management specialist and assessed their competency as a property valuer and their work for use as an audit evidence.
- We involved KPMG property valuation specialists to evaluate the assumptions underlying the properties' valuations for a selection of the directly held property portfolio, holding direct discussion with Knight Frank in respect of the underlying assumptions used for the valuation.
- The KPMG Real Estate team have challenged the valuer on the valuation inputs and reasons for value movement, considered any comparable evidence provided by the valuer and referred to our own internal sources of comparable data, market research, benchmark yields and MSCI data throughout our review. The KPMG Real Estate team evaluated a risk-based sample of properties and concluded that the valuations were balanced.

Our findings

- Directly held property valuation is assessed by management for appropriateness. However, the review was not performed on a sufficiently detailed or documented basis to allow us to rely on the control. Consequently, we concluded that controls in place to review the valuation were ineffective, consistent with the prior period. We note the pension fund appoints a third party (Knight Frank) to value the property and the review is considered adequate by management for their own purposes.

Key:
Prior year | Current year

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Audit risks and our audit approach (cont.)

3 Level 1, Level 2 and Level 3 investments are not complete, do not exist or are not accurately recorded

Other risks

- Level 1, Level 2 and Level 3 investments are not complete, do not exist or are not accurately recorded.
- Investments are held to pay benefits of the Fund. They are held with 9 investment managers across a number of asset classes. The investments are material to the financial statements (99% of the Statement of Net Assets) and therefore there is a risk of material misstatement.
- There is a risk of material misstatement relating to completeness, existence and accuracy as there has been a number of investment transitions in the year between investment managers.

Our response

- As part of our audit procedures, we gained an understanding of the processes over the completeness, existence and accuracy of Level 1, Level 2 and Level 3 investments. This included gaining an understanding of the control environment at all the investment managers and the custodian by reviewing their internal controls reports to identify any control deficiencies that would impact our audit approach.
- We obtained direct confirmations from your custodian and all your investment managers to vouch the holdings and valuation of assets at the year end.
- We vouched purchases and sales to custodian reports.
- We recalculated change in market value and compare this to the overall investment return stated in the Pension Fund Committee's report for consistency with the amounts reported in the financial statements. We investigated any material deviations.

Our findings

There are no matters arising from our work over this risk area.

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Audit risks and our audit approach (cont.)

4 Valuation of Level 1, Level 2 and Level 3 investments is misstated

Other risks

- Investments are held to pay benefits of the Fund. They are largely held as pooled investment vehicles held with 9 investment managers. The investments are material to the financial statements (99% of the Statement of Net Assets) and therefore there is a risk of material misstatement.
- There is a base risk of material misstatement relating to fair values of Level 1 and 2 pooled investments, due to the estimation uncertainty resulting from the pricing of these investments.
- There is an elevated risk of material misstatement relating to fair values of Level 3 pooled investments, due to the estimation uncertainty resulting from application of methods, assumptions and data elements with NAV reports.

Our response

Our approach in relation to valuation for different types of investments is as follows:

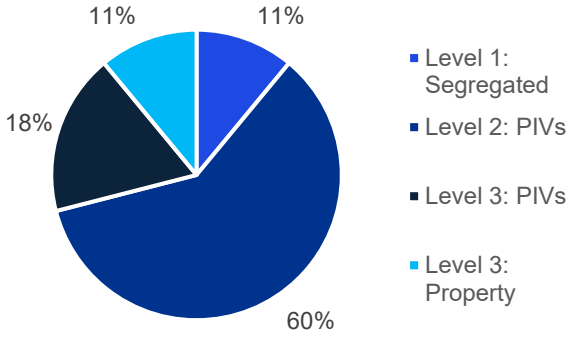
- **Segregated financial instruments**: Our in-house investment valuation team, iRADAR, was engaged to independently revalue segregated securities and over the counter (OTC) derivative prices and identify stale price issues of directly held financial instruments within the investment portfolio as well as any exposures to hard to value assets.
- **Level 1 & 2 Pooled Investment Vehicles**: We recalculated the value of the Level 1 and 2 pooled investments using published pricing of the pooled investment vehicles at the year end (where available). For ULIPs, we verified from fund manager the willingness to transacts at the price obtained.
- **Level 3 Pooled Investment Vehicles**: For each Level 3 pooled investment vehicle investment manager, we obtained the unaudited Net Asset Value ('NAV') Statement at (or closest to) the measurement date and vouched the valuation to this. We further assessed the reliability of the NAV statement for all Level pooled investment vehicles by:
  - Obtaining and inspecting the latest audited financial statements for the underlying funds where available;
  - Inspecting the audit report to confirm that it is unqualified and that the audit has been carried out by a reputable audit firm; and

See following pages for our findings.

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Audit risks and our audit approach (cont.)

Cautious Neutral Optimistic



Type of security	Portfolio	Market value 2025 (£m)	Percentage of portfolio 2025 %	Market value 2024 (£m)	Percentage of portfolio 2024 %
Level 1: Segregated		249.40	11%	313.57	14%
Level 2: PIVs		1,350.73	60%	1,287.76	58%
Level 3: PIVs		413.51	18%	404.41	18%
Level 3: Property		248.30	11%	218.77	10%
Total		2,261.94	100%	2,224.35	100%

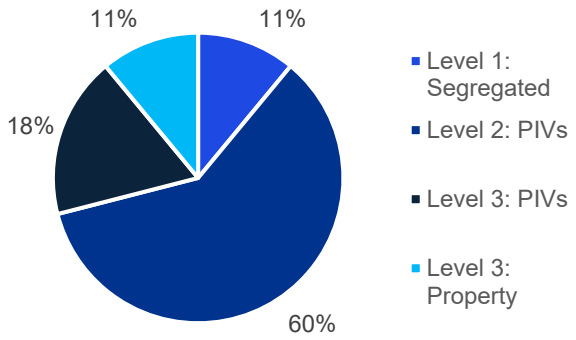
Our findings

Type of security	Our findings	Assessment of accounting estimate
Level 3: Property	• Refer to page 8 for the commentary and findings in respect of property assets.	
Level 3: Pooled Investment Vehicles	• We obtained direct confirmations from the custodian and all the investment managers to vouch the holdings and valuation of assets at the year end; • The draft financial statements are prepared on the basis of latest available valuations that are sometimes lagged due to a delay in preparing the quarterly valuation statements by investment managers. Our audit procedures involved obtaining valuations as at 31 March 2025. We have identified an overstatement of £1.60m between the values in the draft financial statements and those provided by the investment managers as at 31 March 2025. This is relating to Invesco. This is not material to our financial statement's opinion, but we do consider the valuation to be slightly optimistic as recorded. See page 18 for details.	Cautious Neutral Optimistic

Key:
Prior year Current year

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Audit risks and our audit approach (cont.)



Type of security	Portfolio	Market value 2025 (£m)	Percentage of portfolio 2025 %	Market value 2024 (£m)	Percentage of portfolio 2024 %
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Level 2: PIVs		1,350.73	60%	1,287.76	58%
Level 3: PIVs		413.51	18%	404.41	18%
Level 3: Property		248.30	11%	218.77	10%
Total		2,261.94	100%	2,224.35	100%

Our findings

Type of security	Our findings	Assessment of accounting estimate
Segregated assets	• Our in-house investment team, iRADAR, was used to verify the segregated securities and over the counter (OTC) derivative prices and identify stale price issues of directly held financial instruments within the investment portfolio as well as any exposures to hard to value assets. No issues were noted in these assets.	Cautious Neutral Optimistic
Level 2 Pooled Investment Vehicles	• We obtained direct confirmations from the custodian and all the investment managers to vouch the holdings and valuation of assets at the year end; • We engaged our in-house investment team, iRADAR who verified the pricing of the pooled investment vehicles at the year end to an external pricing source (where available) and noted no issues in these assets. For ULIPs, we verified from fund manager the willingness to transacts at the price obtained and noted no issues.	Cautious Neutral Optimistic

Key:
Prior year Current year

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Other matters

Narrative Report and Annual Governance Statement

We have read the contents of the Narrative Report and checked compliance with the requirements of the Annual Report and financial statements with the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 ('the Code'). Based on the work performed:

- We have not identified any inconsistencies between the contents of the Narrative Report and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the statements of the Council. As Pension Fund Committee members, you confirm that you consider that the Narrative Report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council's performance, model and strategy.

Annual Governance Statement

We have reviewed the Council's 2024/25 Annual Governance Statement and confirmed that:

- It complies with delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning, and no further work or matters have arisen since then.

We have not completed any non-audit work at the Fund during the year.

Audit Fees

Our scale fee for the 2024/25 audit, as set by PSAA is **£86,000** plus VAT (£75,000 plus VAT in 2023/24).

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Appendix

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Uncorrected and Corrected audit misstatements	18
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ISA (UK) 240 Revised	21
KPMG's Audit quality framework	22

Required communications

Type	Response
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2025./OR explain additional representations requested.
Adjusted audit differences	There was no adjusted audit difference.
Unadjusted audit differences	The aggregated impact on net assets of unadjusted audit differences would be £1.60m. In line with ISA 450 we request that you adjust for these items. However, this will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 18.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Issue a report in the public interest	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Type	Response
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	None
Disagreements with management or scope limitations	The engagement team had no disagreements with management, and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the statement of accounts.
Breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the London Borough of Southwark Pension Fund's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	The significant matters arising from the audit were discussed, or subject to correspondence, with management.
Certify the audit as complete	We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above. We have not yet certified the audit as complete because our work on WGA is outstanding.

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Fees

Audit fee

Our fees for the year ending 31 March 2025 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2024/25 (£'000)	*2023/24 (£'000)*
Audit services		
Financial Statements	86	*75*
ISA 315(R)	-	*8*
Fee variations	-	*10*
TOTAL	**86**	*93*

Prior period fee variations:

Fee variations were agreed by PSAA for the prior period as follows:

- New auditing standards: £7,840
- Work in respect of quality and preparation of supporting evidences: £10,306

Total: £18,146 (24% of scale fee).

Billing arrangements

Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

If we identify any fee variations upon the completion of our work, we will agree these with management and report them at a later date.

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Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the partner and audit staff is not impaired.

To the Audit, Governance and Standard Committee

Assessment of our objectivity and independence as auditor of London Borough of Southwark Pension Fund

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result, we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

No non-audit services are being provided directly to the Fund during the year ended 31 March 2025 and we have not committed to providing any such services.

Fee level

We do not consider that the objective, reasonable and informed third party would conclude that it is probable that our independence would be compromised by the level of the audit fee.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP, each member of the audit engagement team, and anyone else within the Firm who can influence the conduct or outcome of this audit engagement is independent within the meaning of regulatory and professional requirements. This report is intended solely for the information of the Committee and should not be used for any other purposes. We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

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Audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit, Governance and Standard Committee with a summary of **uncorrected audit differences** (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements.

Below is the summary of uncorrected audit differences:

Uncorrected audit differences (£m)				
No.	**Detail**	**Fund account (Dr/Cr)**	**Net Asset Statement (Dr/Cr)**	**Comments**
1	Dr Change in market value	£1.6	-	Latest available value for pooled property was taken at the time of preparing the financial statements. However, it was the lagged valuation. While performing the audit, KPMG was able to confirm a more up to date valuation as at 31 March 2025 by obtaining an independent confirmation from fund manager and noted variance between the management's valuation and latest NAV.
	Cr Pooled Property (L3 pooled funds)	-	(£1.6)	
Total		£1.6	(£1.6)	

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit, Governance and Standard Committee with a summary of **corrected audit differences** (including disclosure misstatements) identified during the course of our audit.

There are no corrected misstatements to report.

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Control Deficiencies

There are no new recommendations as a result of our work in current year. However, we have also followed up the recommendations from previous year audit, in summary:

Priority rating for recommendations

1 **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

2 **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

3 **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Current Status (November 2025)
1	1	**Approval of journals: Segregation of duties** The Pension Fund has a process where journal entries require authorisation prior to posting in SAP. Whilst none of the journal entries we selected for testing lacked authorisation, we note that the system – as configured – does not enforce authorisation meaning there is a risk that a journal could be posted without approval. We understand the limitations the Pension Fund has identified in the current system meaning they do not believe an approval workflow will be useful. The Pension Fund should consider introducing an approval workflow in its replacement finance system.	**Outstanding** The pension fund is in the process of migrating to a new version of SAP. We would not anticipate the pension fund making substantial changes to the operation of the existing system due to its imminent replacement and consequently have not re-raised our recommendation.
2	2	**Management review of valuation of directly held property** Under the International Standards of Auditing, we are required to identify and evaluate the design and implementation of an internal control in relation to significant risks. Whilst the Audit, Governance and Standard Committee appoints a third-party fund manager, Nuveen to manage its property portfolio and who further in turn engage Knight Frank to value the property, we did not identify an associated management review or other control that meets the requirements of the auditing standards. We recommend that the Fund review and challenge the valuations provided by the valuer. This process should be fully documented.	**Closed** The pension fund's view is that their approach adequately addresses their risks and consequently is content with their process as it stands. Consequently, this recommendation is outstanding but closed.
3	3	**Membership reconciliation** We noted that no formal member reconciliation is performed noting membership changes in the year, reconciling movements and cross checking against the underlying payroll records. There is a risk that membership information may be incorrect. We therefore recommend that the Fund considers performing an annual membership reconciliation to ensure the completeness and accuracy of member records, which should be checked against the underlying payroll records for active and pensioner members at the year end or keep an audit trail and do a formal check when a report is run for the year end.	**Outstanding** The Pension Fund is currently working to expand its membership reconciliation processes to also track changes in member status. This enhancement will allow for a reconciliation of movements within member categories to be available for the next year end. The reconciliation will then be validated against underlying payroll records for active and pensioner members

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Control Deficiencies

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Priority rating for recommendations

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2 **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

3 **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Current Status (November 2025)
4	2	**Related parties** The Pension Fund used old declarations of interest as part of identification of related parties. In many cases we identified more recent declarations on the Council's website, although we acknowledge these may not have existed at the time of preparing the disclosure. If outdated declarations are used, there is a risk the disclosure in the accounts will be incorrect. We recommend that the Pension Fund ensures it always uses the most up to date declaration, and chases members to provide declarations if not up to date during the account's preparation process.	**Implemented** We have not identified any similar issues this year.
5	2	**Valuation of investments** We noted that no formal process followed by pension fund to update the investment valuations after preparing draft financial statements. There is a risk that investments are recorded at lagged valuations. We therefore recommend that the Fund considers obtaining the asset confirmations from fund managers again (at least after 6 months from the year end) for those assets which were recorded at lagged valuations within the first draft of financial statements.	**Implemented** We have not identified any similar issues this year.

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ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

- ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021*) The auditor's responsibilities relating to fraud in an audit of financial statements* included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.
- We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on page 4 and 6. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements* , to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

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KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight (and Risk) Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

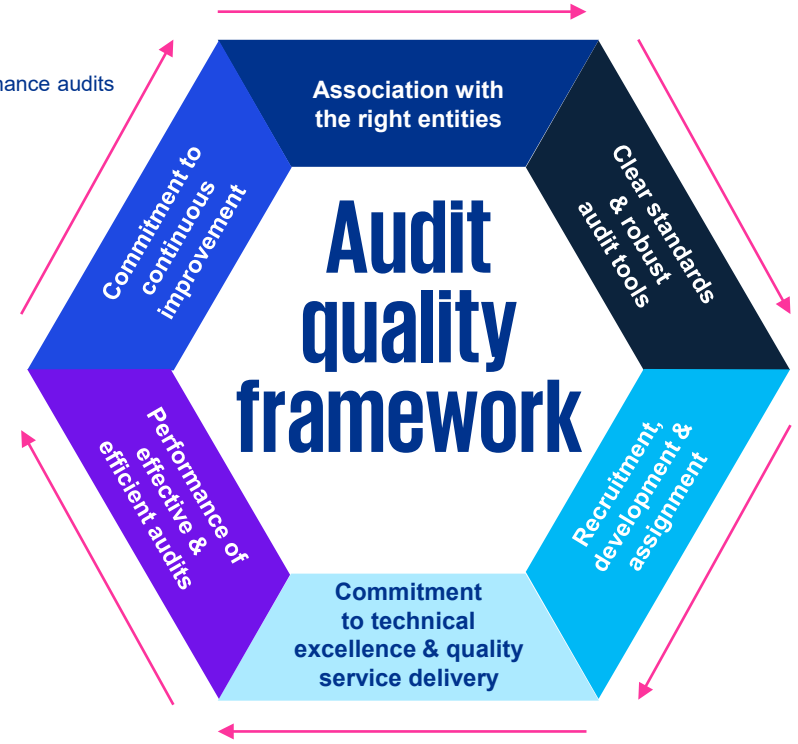
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members

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Agenda Item 8

Meeting Name:	Audit, Governance and Standards Committee
Date:	8 September 2026
Report title:	Draft Statement of Accounts 2025-26
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	n/a

RECOMMENDATION

1. That the Audit, Governance and Standards Committee:

   a. Notes the draft unaudited Statement of Accounts for 2025/26 attached at Appendix A.

   b. Notes that the Statement of Accounts was published in accordance with the statutory timetable.

   c. Notes that the accounts are currently subject to external audit by KPMG and will be presented to the Committee again for approval following completion of the audit.

BACKGROUND INFORMATION

2. The Statement of Accounts is an important component of the Council's accountability framework. It provides a comprehensive summary of the Council's financial performance and financial position for the year ended 31 March 2026.

3. The Accounts are prepared in accordance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting, which is based on International Financial Reporting Standards (IFRS).

4. The Council's external auditor, KPMG LLP, is responsible for auditing the accounts and providing an opinion on whether they present a true and fair view of the Council's financial position, together with a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

5. Under the Council's Constitution, responsibility for approving the audited Statement of Accounts rests with the Audit, Governance and Standards Committee.

KEY ISSUES FOR CONSIDERATION

Publication of Draft Accounts

6. The draft accounts were published on the Council's website on 30 June 2026 in accordance with the statutory publication deadline.

7. The statutory public inspection period commenced following publication, during which local electors are entitled to inspect the accounts and supporting records and raise questions with the Council or the external auditor.

8. KPMG commenced their audit of the accounts in July. The audited accounts, together with the Audit Findings Report, will be presented to the November meeting of the Committee for formal approval.

Role of the Committee

9. The Committee's role is to obtain assurance that robust financial reporting arrangements are in place, understand key financial issues affecting the Council, consider the external auditor's findings, and approve the audited Statement of Accounts. This forms part of its wider responsibility for overseeing governance, risk management and internal controls.

Overview of the 2025-26 Statement of Accounts

10. The Statement of Accounts is a substantial technical document primarily driven by statutory reporting requirements. It contains:
    a. The Narrative Report;
    b. Core Financial Statements;
    c. Disclosure Notes;
    d. Housing Revenue Account;
    e. Collection Fund Accounts; and
    f. Pension Fund Accounts.

11. The Narrative Report provides an overview of the Council's governance arrangements, operational performance, financial performance and key risks and challenges facing the organisation. It highlights continuing demand pressures across temporary accommodation, adult social care and children's services together with the wider economic environment impacting local government finances.

Financial Performance

12. The Council approved a General Fund budget of £369.7 million for 2025-26. The final outturn position reported net expenditure of £395.0 million, resulting in an adverse variance of £25.3 million. The principal budget pressures arose from temporary accommodation, adult social care demand and delays in delivering planned savings programmes. These pressures were managed through earmarked reserves and other mitigating actions.

13. The Housing Revenue Account reported an adverse variance of £1.4m in 2025-26. Key challenges included the contribution to the provision relating to the incorrect temporary accommodation rent-setting formula. Despite these challenges, the HRA continued to make contributions to reserves of £3.9m and progressed its recovery programme, demonstrating a continued focus on strengthening long-term financial sustainability and supporting future investment in the Council's housing stock.

Capital Programme

14. During 2025-26 the Council invested £310.2 million through its capital programme, of which:
    a. £198.4 million related to the Housing Investment Programme; and
    b. £111.8 million related to General Fund capital projects.

15. Investment continued to support the Council's priorities, including housing delivery, estate renewal, building safety, schools, regeneration, digital infrastructure and environmental improvements.

Core Financial Statements

16. **Comprehensive Income and Expenditure Statement (CIES)**
    a. The CIES is prepared in compliance with International Financial Reporting Standards (IFRS) and reports the full accounting cost of delivering Council services during 2025-26. For Southwark, this includes major services such as adult social care, children's services, housing, environment and regeneration.

    b. Unlike the Council's revenue outturn and budget monitoring reports, the CIES includes statutory accounting adjustments such as asset revaluations, impairments, depreciation and pension liability movements. These entries can create significant year-on-year fluctuations but do not impact council tax, housing rents, cash expenditure or usable reserves, as they are reversed through the Movement in Reserves Statement. Further details are provided in Note 11, Adjustment between Accounting Basis and Funding Basis under Regulations. Against this backdrop, the year-on-year movement in Total CIES is £190m, and the principal reasons are summarised in the table on the next page.

Description	**Movement £m**	**Reason**
Revaluations	138	Reflects a decline in housing market values.
Capital Grants	58	Prior-year change in the accounting treatment of capital contributions.
Collection Fund	-18	Timing difference in accounting for the surplus or deficit.

17. **Movement in Reserves Statement (MiRS) -** This statement explains how the Council's reserves changed during the year and how the reported accounting surplus or deficit is reconciled to the amount that can legally be funded from Council Tax, rents, grants and other income sources. It also distinguishes between usable reserves that support future spending plans and statutory accounting reserves that cannot be spent. Usable reserves are summarised below:

Description	**Movement £m**	**At 31 March 2026 £m**
General Fund Reserve	0	22
Earmarked Reserves used	33	229
Contribution to HRA reserves	4	25
Contribution to Capital Receipt Reserve	23	125
Capital Grants Reserve used	1	95
Total usable reserves as at 31 March 2026		**496**

18. **Balance Sheet -** The Balance Sheet provides a snapshot of Southwark Council's financial position as at 31 March 2026. The Council's largest assets are its housing stock, schools, operational buildings, investment properties and infrastructure assets. The statement also includes borrowing used to support the capital programme, pension liabilities, creditors and reserves. Given Southwark's substantial asset base and significant Housing Investment Programme, the Balance Sheet is one of the key statements demonstrating the Council's long-term financial strength and stewardship of public resources. The key movements are summarised

Description	**Movement £m**	**Key Reason**
Decrease in Long-Term Assets	-69	Reflects changes in the market value of Council dwellings and investment properties.
Increase in Current Assets	29	Increase in cash due to timing differences (£44m), offset by a decrease in debtors of £12m.
Increase in Current Liabilities	-72	Increase in grants received in advance of £28m and increase in creditors of £42m.
Increase in Long-Term Liabilities	-52	Increase in borrowing of £45m and provisions of £5m.

19. **Cash Flow Statement -** Whilst the financial statements are prepared on an accrual basis, the Cash Flow Statement shows the actual movement of cash during the year. For Southwark, this reflects cash generated through Council Tax, Business Rates, rents, grants and other income, together with cash spent on service delivery and major capital investment.

Supplementary Financial Statements

20. **Housing Revenue Account (HRA) -** The HRA records all income and expenditure associated with Southwark's role as a social landlord. This is particularly significant given Southwark manages one of the largest local authority housing portfolios in the country, with approximately 38,000 council homes. The statement shows how rental income and service charges have been used to fund housing management, repairs, maintenance, building safety and investment in existing and new homes.

21. **Collection Fund -** The Collection Fund accounts for Council Tax and Business Rates collected by Southwark on behalf of itself, the Greater London Authority and central government. The statement demonstrates the Council's important role as a billing authority and shows how income collected from local taxpayers is distributed to the relevant precepting bodies. Any surplus or deficit arising from collection performance is carried forward and shared between the relevant organisations in future years.

22. **Pension Fund Accounts -** The Pension Fund Accounts relate to the Southwark Pension Fund, which provides pension benefits to current and former employees of the Council and other participating employers. The accounts show contributions received, pension benefits paid and the performance and value of the Fund's investment assets. Although included within the Statement of Accounts, the Pension Fund is legally separate from the Council's own finances and receives a separate external audit opinion. The Pension Fund is overseen by the Pensions Committee and Local Pension Board.

External Audit

23. The accounts remain subject to audit and may be subject to amendment before final approval.

24. Any material changes arising from the audit process will be reported to the Committee when the audited accounts are presented for approval.

Policy framework implications

25. There are no direct policy framework implications in this report.

Community impact statement

26. This report and the accompanying appendices are not considered to have a direct impact on local people and communities. However, good financial

management and reporting arrangements are important to the delivery of local services and to the achievement of outcomes.

Equalities (including socio-economic) impact statement

27. This report is not considered to contain any proposals that would have a significant equalities impact.

Health impact statement

28. This report is not considered to contain any proposals that would have a significant health impact.

Climate change implications

29. This report is not considered to contain any proposals that would have a significant impact on climate change.

Resource implications

30. There are no direct resource implications in this report.

Financial implications

31. This report is financial in nature but does not give rise to any additional direct costs.

Legal Implications

32. Legislation relating to local authority audit and accounts is contained in the Local Government Act 1972, Part 2 of the Audit Commission Act 1998, and regulations made under those Acts.

Consultation

33. Consultation is not required on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

34. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Department of Resources files	Resources Department, Second Floor, Tooley Street	Hasina Shah Hasina.shah@southwark.gov.uk

APPENDICES

No.	Title
Appendix A	2025-26 Draft Statement of Accounts Also available online here: https://www.southwark.gov.uk/sites/default/files/2026-08/Draft-statement-of-accounts-2025-to-2026.pdf

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Hasina Shah, Interim Chief Accountant	
Version	Final	
Dated	21 August 2026	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Democracy	N/A	N/A
Strategic Director, Resources	Yes	Yes
Executive Member	N/A	N/A
Date final report sent to Constitutional Team		24 August 2026

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AN INTRODUCTION TO SOUTHWARK

Southwark is a central London borough extending from the River Thames to Crystal Palace, combining historic assets with modern development. It is home to a wide range of cultural, educational and commercial institutions, contributing to its role as a key part of London's economy.

The borough is one of the most diverse and densely populated areas in England, with a population of around 307,600 (2021 Census) and over 280 ethnic groups represented. It also has a large LGBT+ community and a high level of linguistic diversity.

Southwark plays a significant role in the capital's economy, hosting around 18,000 businesses and supporting over 300,000 jobs. Key sectors include finance, professional services, health and education.

The borough combines a dense urban environment with extensive green space, including over 130 parks and open areas. The Council has committed to becoming carbon neutral by 2030, with ongoing investment in sustainability, green infrastructure and active travel.

Housing reflects Southwark's urban character, with a high proportion of flats and a mix of social, private and owner-occupied homes. The Council continues to invest in housing and regeneration to meet the needs of its growing population.

GOVERNANCE

Southwark Council operates under a Leader and Executive model. The Council Assembly, comprising 63 elected councillors, sets the policy and budget framework and holds the Executive to account.

The Leader of the Council, supported by the Deputy Leader and Executive Members, provides strategic leadership and is responsible for decision-making, policy development and the allocation of resources. The Executive, as the Council's principal decision-making body, oversees the delivery of services and the implementation of agreed priorities. The Corporate Management Team, led by the Chief Executive, is responsible for the operational delivery of these priorities.

The Audit, Governance and Standards Committee provides independent assurance on the adequacy of the Council's risk management, internal control and financial reporting arrangements.

The Council is committed to conducting its business lawfully and in accordance with high standards of governance, ensuring that public funds are safeguarded, properly accounted for and used economically, efficiently and effectively. Transparency and accountability are supported through the publication of key decisions, financial information and performance data.

Despite national challenges in local government external audit, all statements of accounts before 2025-26 have been audited, providing assurance that the Council continues to operate within its legal and regulatory framework.

OPERATIONAL MODEL

The council delivers a broad range of statutory and discretionary services including housing, education, adult and children's social care, waste and environmental services, public health, planning, libraries, leisure centres and parks. Resources are allocated through the annual budget and Medium-Term Financial Strategy (MTFS) and are utilised in-year to deliver services and outcomes for residents.

The organisational structure is supported by the Corporate Management Team, led by the Chief Executive, which comprises strategic directors responsible for key service areas such as finance, housing, environment, adults and children's services. The team provides strategic and operational leadership, ensuring the effective delivery of the Council's priorities and the efficient use of resources across all services.

WORKFORCE

To support the delivery of these services, a total of 5,186 staff were employed as at 31 March 2026, including permanent and fixed-term staff, (5,385 as at 31 March 2025). Southwark holds the Mayor of London's Good Work Standard and is an accredited Living Wage employer. The council also participates in the Disability Confident Scheme, supporting its commitment to an inclusive working environment.

EXTERNAL ENVIRONMENT

The council operates in a challenging external environment, with demand for key services continuing to be shaped by economic conditions, government funding, housing pressures and demographic change.

Although inflation eased during 2025-26, the cumulative impact of higher prices, pay and contract costs continued to affect both residents and the council's cost base. Interest rates also remained relatively high, increasing the cost of borrowing and placing pressure on the affordability of capital investment.

Housing affordability and the shortage of suitable accommodation remained significant local pressures, contributing to continued demand for homelessness services and temporary accommodation. Demand also remained high in adult and children's social care, reflecting demographic pressures and increasingly complex needs.

These factors contributed to the financial pressures reflected in the 2025-26 outturn and remain key considerations in the council's medium-term financial planning.

PERFORMANCE

The council monitors performance across its key service areas. The measures below provide an overview of progress during 2025–26 and highlight areas where performance was above target, broadly on track, or where continued focus is required.

HOUSING

Measure	Target	2025–26 performance	Status
Active tenants and residents associations	40%	49%	Above target
Private rented sector households covered by licensing	56%	61%	Above target
Heating repairs completed right first time	90%	91%	Above target
Internal repairs completed right first time	85%	79%	Below target
Resident satisfaction rates with repairs service	90%	Over 90%	Above target
Social rent homes completed	579	385	Below target

Performance in this area shows progress in resident engagement, private rented sector regulation and heating repairs, but also highlights continuing pressure on housing delivery and repairs performance. This is significant because housing remains one of the council's largest and most financially pressured service areas, with direct links to resident satisfaction, the Housing Revenue Account, the Housing Investment Programme, temporary accommodation demand and the need to prioritise investment in the quality, safety and supply of homes.

CHILDREN AND EDUCATION

Measure	Target	2025–26 performance	Status
Children in care rate	Reduction from 69.6 per 10,000 children	62.9 per 10,000 children	Achieved target
Children in care in long-term stable placements	Maintain strong placement stability	Over three quarters	Positive performance
Care leavers aged 17–21 in education, employment or training	72%	71%	Close to target
Southwark schools providing good quality education according to Ofsted	Maintain high standard	99%	Positive performance
3–4-year-olds taking up early free education entitlement	78%	75%	Above target

These results indicate progress in preventative and statutory services for children and young people. They also provide important context for a demand-led service area where complexity of need, placement stability and early intervention can affect future costs. Performance in this area therefore supports the council's wider aim of improving outcomes for children while managing financial risk in children's social care.

COMMUNITY SAFETY

Measure	Target	2025–26 performance	Status
Private rented sector households covered by licensing	56%	61%	Above target
Local businesses signed up to the Women's Night Safety Charter	Increase participation	77 businesses	Positive performance
Investment in night-time patrols	Deliver targeted investment	£550,000 investment	Delivered

Performance in this area demonstrates how the council is using regulation, partnership working and targeted investment to support safer communities. These activities contribute to resident's wellbeing and confidence in the borough, while also showing how resources are being directed towards preventative and place-based outcomes.

LOCAL ECONOMY AND EMPLOYMENT

Measure	Target	2025–26 performance	Status
People from priority cohorts supported into work	300	559	Above target
Paid internships created for young people from disadvantaged backgrounds	250	266	Above target
Residents receiving digital inclusion support	600	883	Above target
Affordable workspace approved	3,600 square metres	Over 16,000 square metres	Above target
New Living Wage accreditations	496	454	Below target

These outcomes support the council's wider aims of reducing inequality, improving access to employment and strengthening the local economy. The below-target performance on new Living Wage accreditations indicates that further work is required to continue improving fair pay across the borough. Strong local economic performance is relevant to the council's financial position because it can improve residents' financial resilience and help reduce pressure on some council services over the longer term.

HEALTH AND WELLBEING

Measure	Target	2025–26 performance	Status
Health checks for Black and minority ethnic groups	60%	66%	Above target
Stop Smoking service users achieving a four-week quit	50%	50%	Met target
Vital 5 health checks completed	3,000	3,870	Above target
In-borough care homes with a Family Forum in place	11	11	Met target

HEALTH AND WELLBEING continued

These outcomes show progress in prevention, early intervention and resident wellbeing. They are also relevant to financial sustainability, as preventative health and social care activity can help manage future demand. Adult social care remains a significant area of financial pressure for the council, so continued focus on prevention, partnership working and service quality will remain important.

ENVIRONMENT AND PUBLIC REALM

Measure	Target	2025–26 performance	Status
Recycling rate	37%	Close to target and best performance to date	Positive performance
Missed household waste collection rate	50 per 100,000 scheduled collections	Above target (each quarter)	Above target
Individual boiler replacements	1,250	1,258	Above target
Tree coverage	20%	21.6%	Above target
Green Flag Awards retained	30	30	Met target
Cycle hangars installed	1,000	957	Below target

These results support the council's environmental, climate and public realm objectives. They also demonstrate the importance of long-term capital investment and prioritisation within available resources, as many environmental improvements require sustained investment in housing, infrastructure and public spaces.

FINANCIAL OVERVIEW

BUDGET SETTING

The council's financial planning is centred on the annual budget-setting process and the Medium-Term Financial Strategy (MTFS). Each year, the Council is required to set a balanced budget, taking account of expected funding, service demand, inflation, pay pressures, capital financing costs and the use of reserves. Budget proposals are developed through a combination of service planning, review of existing commitments, identification of savings and efficiencies, and prioritisation of investment aligned to the council's agreed priorities.

The budget-setting process brings together both revenue and capital planning. This ensures that day-to-day service budgets, the affordability of borrowing, and longer-term capital investment plans are considered together. The process also provides the framework for monitoring financial performance during the year, identifying emerging pressures and taking corrective action where required.

Revenue Outturn

General Fund Revenue Outturn

The General Fund is the council's main revenue account and funds day-to-day services other than council housing. For 2025/26, Council Assembly approved a net General Fund budget of £369.7m.

The final outturn showed net expenditure of £395m, resulting in an adverse variance of £25.3m. The main pressures were in demand-led services, particularly temporary accommodation and social care, alongside delays in delivering planned transformation savings.

The position was managed through the use of reserves, contingencies and other mitigating actions. However, the outturn represents a deterioration compared with the previous year and highlights the continuing financial pressures facing the council's revenue budget.

General Fund	Budget	Actuals	Variance (+ve= overspend)
	£000	£000	£000
Children and Adults	174,290	183,837	9,548
Integrated Health and Care	3,937	5,150	1,212
Environment, Sustainability and Leisure	109,338	111,148	1,810
Housing	31,256	47,112	15,857
Resources	12,623	16,382	3,759
Governance and Assurance	11,153	11,822	669
Strategy and Communities	4,798	9,786	4,988
Service Budgets	**347,394**	**385,236**	**37,843**
Funded by			
General Contingency	4,000	0	-4,000
Technical Budgets	18,299	9,800	-8,499
General Fund Outturn	**369,693**	**395,036**	**25,343**
Funded by Reserves			**-25,343**

Housing Revenue Account Revenue Outturn

The Housing Revenue Account is a ringfenced account for the council's landlord function and is funded mainly through rents, service charges and other housing income.

During 2025/26, the HRA continued to experience financial pressure, mainly from reduced rental income caused by void properties and the use of homes for temporary accommodation. These pressures were partly offset by expenditure controls and stronger performance in some other income streams.

The final HRA position was a net deficit of £1.4m. Although this was an improvement compared with earlier forecasts, the account remains under pressure from income loss, inflation, regulatory requirements and the cost of maintaining and improving the housing stock. The council is continuing to manage these pressures through the HRA Recovery Plan and prioritisation of investment in safety, compliance and essential works.

Capital Investment Plans

The council's capital programme supports service delivery and long-term investment in homes, schools, community assets, digital infrastructure and the public realm. In 2025/26, total capital expenditure was £310.2m, with £198.4m relating to the Housing Investment Programme (HIP) and £111.8m to the General Fund programme.

The largest area of investment was housing, reflecting the council's focus on increasing housing supply, renewing estates, improving building safety and maintaining existing homes. The General Fund programme also supported major investment in environment and leisure, schools and SEND provision, regeneration, digital infrastructure and operational buildings.

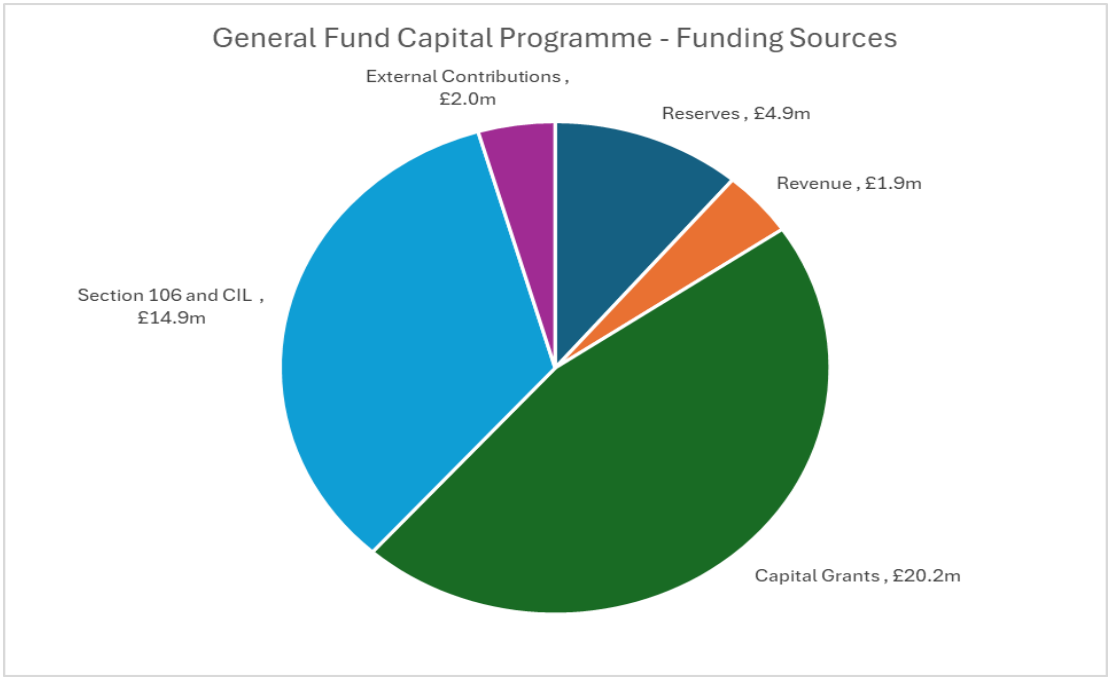
Significant projects and programme areas in 2025/26 included:

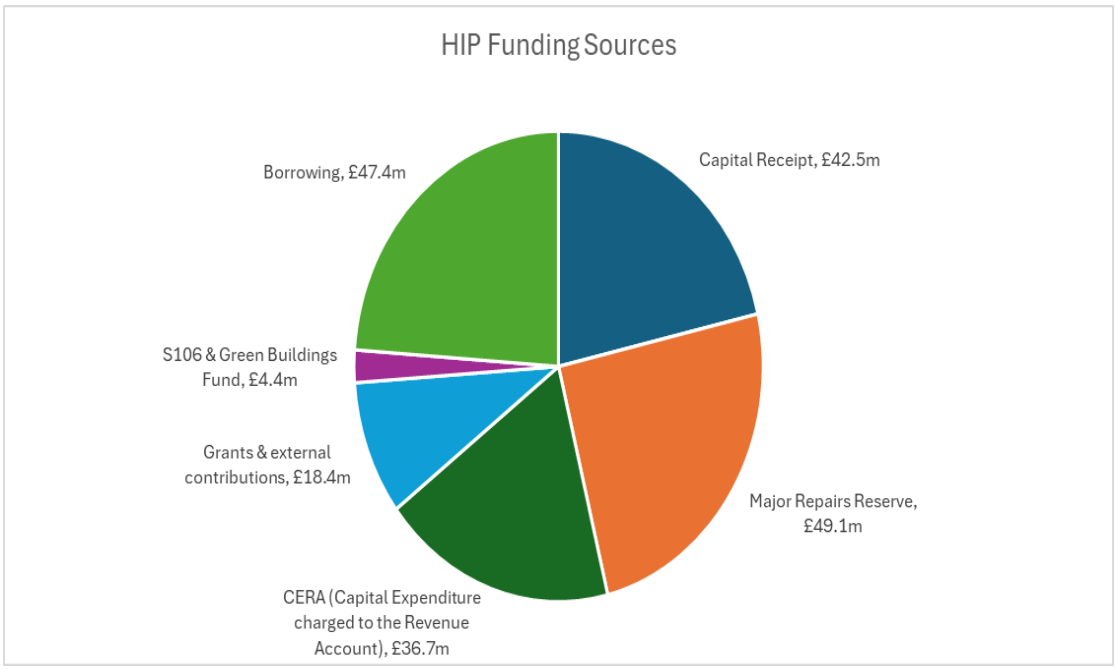
- **Ledbury Estate redevelopment:** Phase 1 expenditure was £25.0m and Phase 2 expenditure was £5.4m, reflecting continued progress on a major housing renewal scheme.
- **Tustin Low Rise Redevelopment Phase 1 (£16.9m):** the first completed phase of the wider Tustin estate renewal programme, delivering new council homes and enabling future phases.
- **Buyback 2025 (£7.1m):** acquisition of homes to increase the council's housing supply and support housing need.
- **LAHF Buybacks 50 Programme (£5.7m):** grant-supported acquisition programme to provide additional homes for households in housing need.
- **66 Linden Grove (£8.4m):** development of 27 new homes, comprising 20 flats in a new four-storey block and seven terraced houses, alongside improvements to the courtyard and allotment area.

- **Laptop Refresh (£11.0m):** investment in the council's digital infrastructure through replacement laptop devices.
- **Beormund Primary School redevelopment (£7.7m):** investment in specialist education provision through the redevelopment of Beormund Primary School.
- **Operational Buildings Life Cycle Investment (£5.8m):** planned investment in the council's operational estate to maintain buildings and support service delivery.

Overall expenditure was below the revised programme, mainly due to slippage and reprofiling of schemes. This reflects the timing and complexity of major housing, regeneration and infrastructure projects, rather than a reduction in the council's long-term investment ambitions.

The following funding charts show how the HIP and General Fund capital programmes were financed. This being through a mix of capital receipts, grants and external contributions, revenue contributions, borrowing and other resources. Borrowing continues to be managed through the Medium-Term Financial Strategy to ensure that capital plans remain affordable over the longer term.





Reserves Position

The General Fund reserve represents resources available to support the Council's non-HRA services and provides a contingency against unforeseen events and financial risks. At 31 March 2026, the General Fund balance remained unchanged at £22.4m. In addition to the unallocated General Fund balance, the Council holds earmarked reserves of £196.6m as at March 2026 for specific purposes, including supporting the delivery of agreed priorities, managing transformation and service risks, and smoothing the impact of timing differences or known future commitments. These reserves do not remove the need for the Council to deliver sustainable in-year budgets, but they provide important short-term resilience while longer-term savings, efficiencies and service plans are developed and implemented.

The Housing Revenue Account (HRA) is ring-fenced and can only be used to support the Council's landlord functions. At 31 March 2026, the HRA balance increased by £4m to £24.8m through planned and other contributions to reserves. The Council continues to manage the HRA through its Recovery Plan, with reserves monitored closely to support core landlord services, manage short-term financial risks and help maintain the long-term sustainability of the ring-fenced account.

TREASURY MANAGEMENT, BORROWING AND INVESTMENTS

The council borrows to support delivery of its capital programme, refinance maturing debt and maintain appropriate cash balances. As at 31 March 2026, actual borrowing held by the council was £1,209m, compared with £1,159m at 31 March 2025. This borrowing was made up of long-term loans predominantly from the Public Works Loan Board.

During 2025/26, in line with the approved treasury management strategy, the council increased its overall borrowing by £50m. This reflected £90m of new long-term loans raised during the year, offset by £40m of repayments. The weighted average rate of long-term borrowing at 31 March 2026 was 3.86%.

The timing of borrowing continues to be carefully managed, balancing the need to fund the capital programme against the risk of future interest rate increases. Borrowing decisions are therefore taken with regard to affordability, treasury management indicators and the council's wider Medium-Term Financial Strategy.

The council also invests surplus cash balances to ensure liquidity and generate returns while maintaining security of funds. Investments are held in short-term money market funds, the Debt Management Account Deposit Fund and fixed-term deposits with other local authorities. As at 31 March 2026, investments stood at £98m, compared with £56m at 31 March 2025. The weighted average rate of return on investments during 2025/26 was 4.13%, compared with 4.80% in 2024/25.

COLLECTION FUND

The Collection Fund records the council tax and business rates collected by the council. Southwark acts as the billing authority, collecting these amounts both for itself and on behalf of other organisations, including the Greater London Authority and central government.

The Collection Fund reported a net surplus at the end of the year of £37m reducing the cumulative deficit down from £52m to £15m. The position reflects council tax performance and ongoing volatility in business rates, including the impact of appeals and valuation movements. The Council's share of the balance will be recognised over future years in accordance with statutory arrangements. Owing to the inherent uncertainty and volatility within the local tax base and business rates—this remains a key financial risk and is reflected in the Council's medium-term financial planning.

PENSION FUND

The Pension Fund is underpinned by an investment strategy, which was reviewed and updated in March 2026. An actuarial valuation is carried out every three years to assess the Fund's financial position and set employer contribution rates. The latest valuation, as at 31 March 2025, showed that the Fund remained in a strong position, with assets covering 110% of liabilities. Contribution rates certified in the 2025 valuation apply for the three years from 1 April 2026, while the rates applicable during 2025/26 were based on the 2022 valuation.

A review of the Fund's investment strategy was completed in early 2026. This considered the Fund's resilience to market volatility and the Government's expectation that local government pension fund assets are pooled through investment pools, including the London Collective Investment Vehicle.

During 2025/26, financial markets delivered positive returns but remained volatile, reflecting changes in monetary policy expectations, geopolitical tensions and uncertainty over global growth. The Fund generated a positive investment return in the year, and medium and longer-term performance remained above target.

PENSION FUND (continued)

The Fund also continued to reduce carbon exposure across its investments as part of its commitment to achieve net zero carbon by 2030, while maintaining investment performance. The Fund's funding position, investment performance and contribution rates remain important to the council's wider financial resilience, as employer contributions affect future revenue budgets.

CHALLENGES, RISKS AND OPPORTUNITIES

The council continues to operate in a challenging environment shaped by rising demand for services, cost pressures and uncertainty in local government funding. These issues create risks to financial sustainability and service delivery, but they also reinforce the importance of maintaining clear priorities, investing in prevention and improving outcomes for residents.

KEY CHALLENGES AND RISKS

The most significant pressures relate to housing, temporary accommodation and social care, where demand remains high and needs are increasingly complex. These pressures contributed to the 2025/26 outturn position and are expected to continue over the medium term.

The council also faces ongoing risks from inflation, pay and contract costs, higher borrowing costs and constraints in the funding system. These factors affect both day-to-day service budgets and the affordability of the capital programme.

There are also delivery risks linked to the scale of the council's capital investment plans, particularly in relation to housing quality, building safety, Decent Homes standards and essential infrastructure. Construction cost pressures, supply chain constraints and the complexity of major projects can affect delivery timescales and costs.

OUTLOOK

The council's financial outlook remains challenging, with continuing pressures from temporary accommodation, social care, inflation, pay and contract costs, and the cost of financing capital investment expected to continue into 2026/27 and over the medium term. For 2026/27, the council has approved a balanced General Fund budget, supported by a 4.99% increase in Southwark's local council tax.

The Medium-Term Financial Strategy remains central to maintaining financial sustainability. The council will continue to respond through active budget monitoring, treasury management, capital programme governance, savings delivery, transformation and prioritisation of resources towards the areas of greatest need. This includes close management of demand-led pressures, particularly in temporary accommodation and social care.

Alongside managing financial risk, the council's priorities create opportunities to improve outcomes over the longer term. Continued investment in prevention, housing quality and safety, Decent Homes standards, housing delivery, regeneration, infrastructure, digital transformation, workforce planning and partnership working will support service improvement, reduce future demand and strengthen value for money.

Overall, the council's outlook is one of continued financial constraint; however, the MTFS, transformation programme and wider financial governance arrangements provide a clear framework for managing risk, maintaining resilience and aligning resources to the council's priorities.

EXPLANATION OF ACCOUNTING STATEMENTS

The Statement of Accounts summarises Southwark Council's financial performance for the year and its financial position as at 31 March 2026. It includes the core financial statements, supplementary financial statements, and accompanying disclosure notes. The format and content are prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 (the CIPFA Code), which is based on International Financial Reporting Standards (IFRS).

CORE FINANCIAL STATEMENTS

The Core financial statements provide an overview of the Council's financial performance and position:

Comprehensive Income and Expenditure Statement

This records the council's income and expenditure for the year. The top half of the statement provides an analysis by service area, and the bottom half deals with the corporate transactions and funding.

Movement in Reserves Statement

A summary of the changes to the council's reserves over the course of the year. Reserves are divided into 'usable', which can be invested in capital projects or service improvements, and 'unusable' (required for accounting and statutory purposes).

Balance Sheet

A snapshot of the council's assets, liabilities, cash balances and reserves at the year-end date.

Cash Flow Statement

Shows the reason for changes in the council's cash balances during the year, and whether that change is due to operating activities, new investment or financing activities (such as repayment of borrowing and other long-term liabilities).

Annual Governance Statement

The Annual Governance Statement describes the Council's governance framework and key internal controls and sets out how the Council ensures the effective and proper use of resources.

SUPPLEMENTARY FINANCIAL STATEMENTS

Housing Revenue Account (HRA)

This account separately identifies the Council's statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989.

Collection Fund

Summarises the collection and distribution of council tax and business rates income.

Pension Fund Accounts

Reports the contributions received, payments to pensioners, and the value of assets held in the Local Government Pension Scheme.

Glossary of key terms can be found at the end of this publication.

Statement of Responsibilities

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council that officer is the Strategic Director of Resources;
- manage its affairs to secure economic, efficient and effective use of resources, and safeguard its assets; and
- approve the Statement of Accounts.

THE STRATEGIC DIRECTOR OF RESOURCES' RESPONSIBILITIES

The Strategic Director of Resources is responsible for the preparation of the council's Statement of Accounts and of its Pension Fund Statement of Accounts in accordance with proper practices as set out in the Chartered Institute for Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing these Statements of Accounts, the Strategic Director of Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code

The Strategic Director of Resources has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities

I certify that the Statement of Accounts presents a true and fair view of the financial position of Southwark Council as at 31 March 2026 and its income and expenditure for the financial year ended 31 March 2026.

Signature:



Clive Palfreyman

Strategic Director of Resources

Date: 30 June 2026

CORE FINANCIAL STATEMENTS 2025/26

Comprehensive Income and Expenditure Statement

Movement in Reserves Statement

Balance Sheet

Cash Flow Statement

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). The council raises taxation (and rents) to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and in the Movement in Reserves Statement.

	Notes			2025/26			2024/25
		Gross Expend £000	Gross Income £000	Net Expend £000	Gross Expend £000	Gross Income £000	Net Expend £000
Children and Adults		614,621	(451,995)	162,626	594,118	(427,238)	166,880
Environment, Sustainability and Leisure		173,961	(96,887)	77,074	169,217	(85,774)	83,443
Resources		257,395	(181,958)	75,437	294,588	(188,760)	105,828
Governance and Assurance		37,020	(2,409)	34,611	28,644	(2,528)	26,116
Strategy and Communities		10,558	(197)	10,361	10,728	(215)	10,513
Housing GF		91,850	(47,130)	44,720	82,041	(42,018)	40,023
Integrated Health and Care		9,309	(4,568)	4,741	13,324	(10,003)	3,321
Housing Revenue Account (HRA)		532,011	(332,412)	199,599	456,091	(349,310)	106,781
Net cost of services		**1,726,725**	**(1,117,556)**	**609,169**	**1,648,751**	**(1,105,846)**	**542,905**
Other Operating Income and Expenditure	8			(38,157)			(25,904)
Financing and Investment Income and Expenditure	9			33,543			52,329
Taxation and Non-Specific Grant Income and Expenditure	10			(426,743)			(486,303)
(Surplus)/Deficit on Provision of Services				**177,812**			**83,027**
(Surplus)/deficit on revaluation of non current assets	23			(32,531)			(117,793)
(Surplus) / deficit on financial assets measured at fair value through other comprehensive income	39			-			(236)
Remeasurement of the net defined benefit liability	23			18,782			8,649
Other Comprehensive Income and Expenditure				**(13,749)**			**(109,380)**
Total Comprehensive Income and Expenditure				**164,063**			**(26,353)**

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The net increase/decrease before the transfers to earmarked reserves line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves have been undertaken by the council.

MOVEMENT IN RESERVES 2025/26

	General Fund Balance	Earmarked General Fund Reserves	Schools Balances Reserves	Dedicated Schools Grant Reserves	Total General Fund (GF) Balance	Housing Revenue Account (HRA) Balance	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves (Note 23)	Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1 April 2024	**(22,443)**	**(244,792)**	**(15,059)**	**(12,937)**	**(295,231)**	**(16,921)**	**-**	**(102,506)**	**(19,706)**	**(434,364)**	**(4,171,936)**	**(4,606,300)**
Movement in reserves during 2024/25												
(Surplus)/deficit on the provision of services	702	-	-	-	**702**	82,325	-	-	-	**83,027**		**83,027**
Other Comprehensive Income and Expenditure	-	-	-	-	**-**	-	-	-	-	**-**	(109,380)	**(109,380)**
Total Comprehensive Income and Expenditure	**702**	**-**	**-**	**-**	**702**	**82,325**	**-**	**-**	**-**	**83,027**	**(109,380)**	**(26,353)**
Adjustments between accounting basis & funding basis under regulations (Note 11)	10,332	-	-	-	**10,332**	(86,262)	-	94	(76,265)	**(152,101)**	152,101	**-**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**11,034**	**-**	**-**	**-**	**11,034**	**(3,937)**	**-**	**94**	**(76,265)**	**(69,074)**	**42,721**	**(26,353)**
Transfers (to)/from earmarked reserves	(11,034)	13,928	6	(2,928)	**(28)**	28	-	-	-	-		**-**
(Increase)/Decrease in Year	**-**	**13,928**	**6**	**(2,928)**	**11,006**	**(3,909)**	**-**	**94**	**(76,265)**	**(69,074)**	**42,721**	**(26,353)**
Balance as at 31 March 2025	**(22,443)**	**(230,864)**	**(15,053)**	**(15,865)**	**(284,225)**	**(20,830)**	**-**	**(102,412)**	**(95,971)**	**(503,438)**	**(4,129,215)**	**(4,632,653)**
Balance as at 1 April 2025	**(22,443)**	**(230,864)**	**(15,053)**	**(15,865)**	**(284,225)**	**(20,830)**	**-**	**(102,412)**	**(95,971)**	**(503,438)**	**(4,129,215)**	**(4,632,653)**
Movement in reserves during 2025/26												
(Surplus)/deficit on the provision of services	16,610	-	-	-	**16,610**	**161,202**	-	-	-	**177,812**		**177,812**
Other Comprehensive Income and Expenditure	-	-	-	-	**-**	-	-	-	-	**-**	(13,749)	**(13,749)**
Total Comprehensive Income and Expenditure	**16,610**	**-**	**-**	**-**	**16,610**	**161,202**	**-**	**-**	**-**	**177,812**	**(13,749)**	**164,063**
Adjustments between accounting basis & funding basis under regulations (Note 11)	17,058	-	-	-	**17,058**	(165,127)	-	(22,886)	39	**(170,916)**	170,916	**-**
Net (Increase)/Decrease before Transfers to Earmarked Reserves	**33,668**	**-**	**-**	**-**	**33,668**	**(3,925)**	**-**	**(22,886)**	**39**	**6,896**	**157,167**	**164,063**
Transfers (to)/from earmarked reserves	(33,668)	32,432	1,833	(1,050)	(453)	(29)	-	-	482	**-**		**-**
(Increase)/Decrease in Year		**32,432**	**1,833**	**(1,050)**	**33,215**	**(3,954)**	**-**	**(22,886)**	**521**	**6,896**	**157,167**	**164,063**
Balance as at 31 March 2026	**(22,443)**	**(198,432)**	**(13,220)**	**(16,915)**	**(251,010)**	**(24,784)**	**-**	**(125,298)**	**(95,450)**	**(496,542)**	**(3,972,048)**	**(4,468,590)**

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date 31 March of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt).

The second category is unusable reserves which the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.

	Notes	31 March 2026	31 March 2025
		£000	£000
Property, plant and equipment	13	5,631,394	5,691,479
Heritage assets		1,223	1,223
Work in Progress		-	-
Investment property	14	299,894	307,511
Long-term investments	39	200	200
Long-term debtors	17	31,539	33,172
Pension assets	38	113	48
Long Term Assets		**5,964,363**	**6,033,633**
Short-term investments	39	25,052	-
Inventories	15b	498	3,730
Short-term debtors	17	154,702	166,396
Assets held for sale	15a	7,785	7,798
Cash and cash equivalents	16	74,276	55,339
Current Assets		**262,313**	**233,263**
Short-term borrowing	39	(56,965)	(52,289)
Short-term creditors	18	(281,027)	(239,238)
Short-term provisions	19	(5,259)	(7,803)
Grants receipts in advance	21	(164,039)	(135,495)
Bank overdraft	16	(3,832)	(4,482)
Current Liabilities		**(511,122)**	**(439,307)**
Long-term creditors	18	(4,133)	(416)
Long-term provisions	19	(17,035)	(11,892)
Long-term borrowing	39	(1,161,871)	(1,116,497)
Other long-term liabilities	36	(63,925)	(66,131)
Long Term Liabilities		**(1,246,964)**	**(1,194,936)**
Net Assets		**4,468,590**	**4,632,653**
Usable reserves	12	(496,542)	(503,438)
Unusable reserves	23	(3,972,048)	(4,129,215)
Total Reserves		**(4,468,590)**	**(4,632,653)**

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the council during the reporting period. The statement shows how the council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the council are funded by way of taxation and grant income or from the recipients of services provided by the council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the council's future service delivery.

The accompanying notes form an integral part of financial statement.

	Notes	2025/26	2024/25
		£000	£000
Net surplus or (deficit) on the provision of services		(177,812)	(83,027)
Adjustment to surplus or (deficit) on the provision of services for non cash movements	24	509,161	388,038
Adjust for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	24	(128,012)	(183,144)
Net cash flows from operating activities		**203,337**	**121,867**
Net cash flows from investing activities	25	(209,202)	(152,729)
Net cash flows from financing activities	26	25,452	47,189
Net increase or (decrease) in cash and cash equivalents		**19,587**	**16,327**
Cash and cash equivalents at the beginning of the reporting period	16	50,857	34,530
Cash and cash equivalents at the end of the reporting period		**70,444**	**50,857**

DISCLOSURE NOTES TO THE ACCOUNTS 2025/26

1. EXPENDITURE AND FUNDING ANALYSIS

The analysis shows how annual expenditure is used and funded from resources by the Council in comparison to those resources consumed or earned by the Council in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services departments, as stated in the narrative report. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

Expenditure and Funding Analysis	**2025/26**					**2024/25**				
	As reported for resource management (Narrative report)	**Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances**	**Net expenditure chargeable to the General Fund and HRA balances**	**Adjustments between funding and accounting basis (Note 7)**	**Net expenditure in the Comprehensive Income and Expenditure Statement**	**As reported for resource management (Narrative report)**	**Adjustment to arrive at the net amount chargeable to the General Fund and HRA balances**	**Net expenditure chargeable to the General Fund and HRA balances**	**Adjustments between funding and accounting basis (Note 7)**	**Net expenditure in the Comprehensive Income and Expenditure Statement**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Children and Adults (including dedicated schools grant)	183,837	(17,902)	**165,935**	(3,309)	**162,626**	172,139	(13,597)	**158,542**	8,338	**166,880**
Environment, Sustainability and Leisure	111,148	(23,950)	**87,198**	(10,124)	**77,074**	116,012	(23,819)	**92,193**	(8,750)	**83,443**
Resources*	26,182	40,567	**66,749**	8,692	**75,441**	42,862	(2,991)	**39,871**	65,957	**105,828**
Governance and Assurance	11,822	23,780	**35,602**	(991)	**34,611**	26,406	363	**26,769**	(653)	**26,116**
Strategy and Communities	9,786	821	**10,607,**	(246)	**10,361**	8,233	2,389	**10,622**	(109)	**10,513**
Housing GF	47,112	(2,627)	**44,485**	234	**44,719**	38,448	1,271	**39,719**	304	**40,023**
Integrated Health and Care	5,150	(259)	**4,891**	(150)	**4,741**	4,352	(971)	**3,381**	(60)	**3,321**
Housing Revenue Account (HRA)	-	(3,025)	**(3,025)**	202,624	**199,599**	-	(3,938)	**(3,938)**	110,719	**106,781**
Support cost reallocations	-	-	**-**	-		(49,053)	49,053	**-**	-	**-**
Net cost of services	**395,037**	**17,405**	**412,442**	**196,730**	**609,172**	**359,399**	**7,760**	**367,159**	**175,746**	**542,905**
Other income and expenditure	(369,693)	(13,487)	**(383,180)**	(48,177)	**(431,357)**	(359,399)	(663)	**(360,062)**	(99,816)	**(459,878)**
(Surplus)/Deficit	**25,344**	**3,918**	**29,262**	**148,553**	**177,815**	**-**	**7,097**	**7,097**	**75,930**	**83,027**
Opening General Fund and HRA Balance at 1 April			**(305,055)**					**(312,152)**		
(Surplus)/Deficit on General Fund and HRA Balance in year			**29,262**					**7,097**		
Closing General Fund HRA Balance at 31 March			**(275,793)**					**(305,055)**		

2. ACCOUNTING POLICIES

Concepts and Principles

2.1. Basis of preparation

The Statement of Accounts summarises the council's transactions for the 2025/26 financial year and its position at the year-end of 31 March 2026. The council is required to prepare a Statement of Accounts by the Accounts and Audit (England) Regulations 2015, in accordance with proper accounting practices. These practices, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26, supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts has been prepared on a 'going concern' basis. The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments as summarised in the table below.

Class of Assets	Valuation bases
Property, Plant and Equipment (PPE) - Dwellings	Current value, comprising existing use value for social housing; dwellings are valued using market prices for comparable properties, adjusted to reflect occupancy under secured tenancies. These are valued annually.
PPE – Other Land and Buildings	Current value, comprising existing use value; where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost. These are valued quinquennially.
PPE - Surplus Assets	Fair value, valued quinquennially.
Investment properties	Fair value, valued annually
Assets Held for Sale	Lower of carrying amount or fair value less costs to sell, valued annually
PPE leased assets	Lower of either their fair value or the present value of the minimum lease payments, on a quinquennial basis.
Financial Instruments - fair value through profit and loss	Fair value
Pensions Assets	Actuarial basis subject to the impacts of an asset ceiling
Pensions Liabilities	Actuarial basis

2.2. Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

i. Revenue from the sale of goods or services is recognised when the council satisfies a performance obligation by transferring control of goods and services to the customer, in accordance with the terms and conditions of the contract. Control is deemed to transfer when the customer can direct the use of, and obtain the remaining benefits from, the goods or services, which may coincide with the transfer of significant risks and rewards of ownership. Revenue is recognised only when it is probable that the associated economic benefits or service potential will flow to the Council and the amount can be measured reliably.
ii. Revenue from contracts with service recipients is recognised when it satisfies a performance obligation by transferring promised goods or services to a recipient, measured as the amount of the overall transaction price allocated to that obligation.
iii. Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories in the Balance Sheet.
iv. Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
v. Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
vi. Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
vii. Accruals are recognised where the value exceeds £20,000 for revenue and £50,000 for capital.

2.3. Adjustments between accounting basis and funding basis under regulations

The resources available to the council in any financial year and the expenses that are charged against those resources are specified by statute (the Local Government Act 2003 and the 2003 Regulations).

Where the statutory provisions differ from the accruals basis used in the Comprehensive Income and Expenditure Statement (CIES), adjustments to the accounting treatment are made in the Movement in Reserves Statement (MiRS) so that usable reserves reflect the funding available at the year end. Unusable reserves are created to manage the timing differences between the accounting and funding bases. The material adjustments are:

Category	Accounting basis in CIES	Funding basis in MiRS	Adjustment account
Property, plant and equipment	Depreciation and revaluation/ impairment losses	Minimum Revenue Provision (MRP) to cover historical cost determined in accordance with 2003 regulations	Capital Adjustment Account
Investment properties	Movement in fair value		
Revenue expenditure funded from capital under statute	Expenditure incurred in year		
Capital grants and contributions	Grants that became unconditional in year or were received in year without conditions	No credit	Capital grants unapplied reserve or Capital adjustment account (if utilised for funding capital expenditure)
Non-current asset disposals	Gain or loss based on sale proceeds less carrying amount of asset (net of costs of disposal)	No charge or credit	Capital adjustment account (carrying amount) Capital receipts reserve (sale proceed and cost of disposal) Deferred capital receipts reserve (sale proceeds not yet received)
Pension costs	Movements in pensions assets and liabilities	Employers pension contributions payable and direct payments made by the council to pensioners	Pensions reserve
Category	**Accounting basis in CIES**	**Funding basis in MiRS**	**Adjustment account**
Financial instruments	Premiums payable and discounts receivable on early repayment of borrowing	Deferred debits/credits of premiums/discounts from earlier years	Financial instruments adjustment account
	Losses on soft loans and interest receivable on an amortised cost basis	Interest due to be received on soft loans in year	
Council tax	Accrued income from 2025/26 bills	Demand on the Collection Fund for 2025/26 plus share of estimated surplus/deficit for 2024/25	Collection Fund adjustment account
Business rates	Accrued income from 2025/26 bills	Budgeted income receivable from the Collection Fund for 2025/26 plus share of estimated surplus/deficit 2024/25	Collection Fund adjustment account
Holiday pay	Projected cost of untaken leave entitlements at 31 March 2026	No charge	Accumulated absence adjustment account
Dedicated schools grant (DSG)	Expenditure incurred in 2025/26 to be met from dedicated schools grant	Expenditure incurred up to the amount of the grant receivable for 2025/26	Dedicated schools grant adjustment account

2.4. Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

2.5. Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits with financial institutions repayable without penalty on notice of not more than 24 hours without penalty. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.6. Charges to revenue for non-current assets

Services, support services and trading accounts are charged an accounting estimate of the cost of holding non-current assets during the year. This comprises:

- depreciation attributable to the assets used by the relevant service.
- revaluation and impairment losses on assets used by a service where there are no accumulated gains in the revaluation reserve against which the losses can be written off.

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation is replaced by an annual Minimum Revenue Provision (MRP) charge to reduce its Capital Financing Requirement. MRP is calculated using the asset life method on an annuity basis for borrowing. For leases, Private Finance Initiative (PFI) schemes and similar arrangements, MRP equates to the amount required to reduce the associated liability over the life of the agreement.

The MRP policy can be found on the link below:
ANNUAL MINIMUM REVENUE PROVISION STATEMENT

2.7. Council Tax and National Non-Domestic Rates (NNDR)

As a billing authority the council act as agents, collecting council tax and NNDR on behalf of the GLA and central government and, as principals, collecting for itself. The council is required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NNDR. Under the legislative framework for the collection fund, the council, GLA and central government share proportionately the risks and rewards that the amount of council tax and NNDR collected could be less or more than predicted.

The council tax and NNDR income included in the CIES is the council's share of accrued income for the year. However, regulations determine the amount of council tax and NNDR that must be included in the council's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the collection fund adjustment account and included as a reconciling item in the MiRS.
The Balance Sheet includes the council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments, prepayments and appeals. Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made, the asset is written down and a charge made to the taxation and non-specific grant income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

2.8. Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants, third party contributions and donations are recognised as due to the council when there is reasonable assurance that:

- the council will comply with the conditions attached to the payments, and
- the grants or contributions will be received

Amounts recognised as due to the council are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as grants received in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service segment line or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund balance in the MiRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

2.9. Business improvement districts

A business improvement district (BID) scheme may apply across the whole of the council, or to specific areas of the council. Schemes are funded by a BID levy paid by non-domestic ratepayers. The council acts as principal under these schemes, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement. Southwark has five BIDs in operation; Better Bankside, Blue Bermondsey, Southbank, Team London Bridge and We Are Waterloo.

2.10. Community infrastructure levy

The council has elected to charge a community infrastructure levy (CIL). The levy is charged on new builds (chargeable developments for the council) with appropriate planning consent. The council charges for and collects the levy. The income is used to fund several infrastructure projects (these include transport, flood defences and schools) to support the development of the area. The CIL is recognised at the commencement date of the chargeable development in the CIES as a contribution without outstanding conditions. CIL income will be largely used to fund capital expenditure. However, a proportion (5%) of the charges is used to fund revenue expenditure, allowed under CIL regulation 61.

2.11. Inventories

Inventories (Stock) are measured at the lower of cost and net realisable value and the cost of inventories is assigned using the first in first out (FIFO) method. Property constructed for sale in the ordinary course of business is accounted for as inventory property. The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. When inventory property is sold, its carrying amount is recognised as an expense in the period in which the related revenue is recognised.

2.12. Support Services

Support service costs are allocated to service areas where required for SeRCOP based reporting using reasonable and supportable allocation bases. Costs that are non-distributed in nature are not apportioned to services.
The presentation of service segments in CIES reflects internal management reporting arrangements and is therefore adjusted to remove support service costs in line with statutory reporting requirements.

2.13. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund balance in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the CIES. The reserve is then appropriated back into the General Fund balance in the MiRS so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits, and do not represent usable resources for the council.

2.14. Value added tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from His Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

NON-CURRENT ASSETS

2.15. Measurement

Assets are carried at current value (or fair value where applicable) in line with the CIPFA Code. Up to 31 March 2025, the Accounting Code required that assets included in the Balance Sheet at current value were re-valued sufficiently regularly to ensure that their carrying amount was not materially different from their current value at the year end, but as a minimum every five years. From 1 April 2025 the requirement is to revalue assets every five years, with indexation in the years that a valuation is not carried out. The change in policy is applied prospectively, so that the carrying amounts of Property, Plant and Equipment assets at 31 March 2025 have not been adjusted.

Council had adopted the quinquennial basis of valuation which will be supplemented by annual indexation. Where appropriate index has not been identified for an asset, the asset is revalued every five years, supplemented by a desktop valuation in year three. A comprehensive revaluation was undertaken in 2025/26, which forms the base year for subsequent valuations.

2.16. Property, plant and equipment (PPE)

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and that are expected to be used during more than one financial year are classified as property, plant and equipment.

- **Recognition**

Recognition Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

- **Measurement**

Assets are initially measured at cost, comprising:

i. The purchase price
ii. any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Certain categories of property, plant and equipment are measured subsequently at current value. In years between full valuations, carrying values are updated using appropriate indices to reflect movements in asset values. Indices are applied by asset class and are intended to ensure that carrying amounts approximate current value at the balance sheet date, as required by the Code.

Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for as follows:

i. where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
ii. where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account

2.16 Property, plant and equipment (PPE) continued

- **Impairment**

Assets are assessed at each reporting date to determine whether there is any indication of impairment. If such indicators exist and the potential impact is material, the recoverable amount of the asset is estimated at higher of:

i. Fair value less costs of disposal, and
ii. Value in use (IAS36 is interpreted by the CIPFA Code so that value in use is taken to be the cost of replacing the asse held for their service potential). If the recoverable amount is lower than the carrying amount, the asset is written down to its recoverable amount and an impairment loss is recognised and accounted for in the same way as revaluation losses

- **Depreciation**

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and community assets) and assets that are not yet available for use (i.e. assets under construction). Newly acquired or completed assets are depreciated in the year following acquisition or completion. A full year's depreciation is charged in the year of disposal.

Depreciation is calculated on the straight-line allocation over the useful life of the asset.

Property assets are assessed for significant components, and where a component represents at least 20% of the non-land value of the asset and has a useful life differing from the main asset by 10 years or more, it is depreciated separately.

Revaluation gains are also depreciated, with the annual difference between depreciation based on current value and historical cost transferred from the Revaluation Reserve to the Capital Adjustment Account.

- **Sites under development**

Land held for future development is classified as surplus assets until the construction work commences. Once construction work starts and is expected to continue for more than 12 months, the asset is reclassified as assets under construction. These assets are held at cost while development is in progress and are not depreciated until they are ready for use. When the development is substantially complete, the asset is valued as a finished property and transferred to operational assets.

- **Disposal**

On disposal, the carrying value of the asset is de-recognised in the Balance Sheet. This amount, net of any receipts from disposal, are accounted for as gain or loss on disposal and taken to the Other Operating Expenditure line in the CIES. Any revaluation gains previously accounted for in Revaluation Reserve are transferred to the Capital Adjustment Account.

Proceeds from disposals above £10,000 are treated as capital receipts and must be credited to the Capital Receipts Reserve. Net receipts from right to buy disposals are shared with the government in line with statutory requirements.

The written -off value of disposals is not a charge against council tax but is subject to separate arrangements for capital financing. Amounts reflected in the CIES are appropriated to the Capital Adjustment Account via the Movement in Reserves Statement.

- **Infrastructure Assets**

Highways network infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

Recognition - Expenditure on the acquisition or replacement of components of the network is capitalised on an accruals basis, provided that it is probable that the future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably.

2.16 Property, plant and equipment (PPE) continued

Measurement - Highways network infrastructure assets are generally measured at depreciated historical costs. However, this is a modified form of historical costs – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994 which was deemed at that time to be historical cost.

Depreciation - Depreciation is provided on the parts of the highways network infrastructure assets that are subject to deterioration or depletion and by the systemic allocation of their depreciable amounts over their useful lives on a straight-line basis.

Derecognitions – All replaced infrastructure components are considered to be fully depreciated and therefore have a nil carrying value.

A temporary accounting override applies for reporting periods up to 31 March 2027, meaning local authorities are not required to disclose the gross book value and accumulated depreciation of infrastructure assets. This relief has been introduced because historical records are incomplete, and the information may not provide a reliable or meaningful view of the asset position for users of the financial statements.

2.17. Revenue expenditure funded from capital under statute

Expenditure that qualifies for capital funding under statutory provisions but does not create a non-current asset is charged to the relevant service in the CIES in the year incurred. Where this is funded from capital resources or borrowing, an adjustment is made through the Movement in Reserves Statement to transfer the cost from the General Fund to the Capital Adjustment Account, ensuring there is no impact on council tax.

2.18. Heritage Assets

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g., when an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

2.19. Investment property

Investment properties are land or buildings held to earn rental income, for capital growth or both. They are initially recognised at cost and subsequently measured at fair value reflecting market conditions at the reporting date. These properties are not depreciated.

Gains and losses arising from changes in fair value, or from disposal, are recognised in the Financing and Investment Income and Expenditure line within the CIES. Rental income arising from investment properties is also recognised in this line.

Statutory regulations do not permit unrealised gains and losses on investment properties to impact the General Fund balance. Accordingly, these amounts are reversed out through the MiRS and transferred to the Capital Adjustment Account.

2.20. Leases

2.20.1. The council as a lessee

The council classifies contracts as leases based on their substance. Contracts and parts of contracts, including those described as contracts for services, are analysed to determine whether they convey the right to control the use of an identified asset, through rights both to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The Code expands the scope of IFRS 16 Leases to include arrangements with nil consideration, peppercorn or nominal payments.

- **Initial measurement**

Leases are recognised as right-of-use assets with a corresponding liability at the date from which the leased asset is available for use (or the IFRS 16 transition date, if later). The leases are typically for fixed periods in excess of one year but may have extension options. The council initially recognises lease liabilities measured at the present value of lease payments, discounting by applying the council's incremental borrowing rate wherever the interest rate implicit in the lease cannot be determined. Lease payments included in the measurement of the lease liability include:

- fixed payments, including in-substance fixed payments
- variable lease payments that depend on an index or rate, initially measured using the prevailing index or rate as at the adoption date
- amounts expected to be payable under a residual value guarantee
- the exercise price under a purchase option that the council is reasonably certain to exercise
- lease payments in an optional renewal period if the council is reasonably certain to exercise an extension option
- penalties for early termination of a lease, unless the council is reasonably certain not to terminate early

The right-of-use asset is measured at the amount of the lease liability, adjusted for any prepayments made, plus any direct costs incurred to dismantle and remove the underlying asset or restore the underlying asset on the site on which it is located, less any lease incentives received.

- **Subsequent measurement**

The right-of-use asset is subsequently measured using the fair value model. The council considers the cost model to be a reasonable proxy except for:

- assets held under non-commercial leases
- leases where rent reviews do not necessarily reflect market conditions
- leases with terms of more than five years that do not have any provision for rent reviews
- leases where rent reviews will be at periods of more than five years.

For these leases, the asset is carried at a revalued amount. In these financial statements, right-of use assets held under index-linked leases have been adjusted for changes in the relevant index.

The right-of-use asset is depreciated straight-line over the shorter period of remaining lease term and useful life of the underlying asset as at the date of adoption.

The lease liability is subsequently measured at amortised cost, using the effective interest method. The liability is remeasured when:

- there is a change in future lease payments arising from a change in index or rate
- there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee
- the council changes its assessment of whether it will exercise a purchase, extension or termination option, or
- there is a revised in-substance fixed lease payment

When such a remeasurement occurs, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any further adjustment required from remeasurement being recorded in the income statement.

2.20.1The council as a lessee continued

- **Low value and short lease exemption**

As permitted by the Code, the council excludes leases:

- for low-value items that cost less than £20,000 when new, provided they are not highly dependent on or integrated with other items,
- and with a term shorter than 12 months (comprising the non-cancellable period plus any extension options that the council is reasonably certain to exercise and any termination options that the council is reasonably certain not to exercise).

- **Lease expenditure**

Expenditure in the Comprehensive Income and Expenditure Statement includes interest, straight-line depreciation, any asset impairments and changes in variable lease payments not included in the measurement of the liability during the period in which the triggering event occurred. Lease payments are debited against the liability. Rentals for leases of low value items or shorter than 12 months are expensed. Depreciation and impairments are not charges against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

2.20.2 The council as a lessor

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

- **Finance leases**

Where the council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and is required to be treated as a capital receipt:

- Where a premium has been received, this is posted out of the General Fund balance to the capital receipts reserve in the Movement in Reserves Statement.
- Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the deferred capital receipts reserve in the Movement in Reserves Statement.
- When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the capital receipts reserve.

2.20.2 The council as a lessor continued

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

- **Operating leases**

Where the council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the financing and investment income line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income

2.21 Private finance initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its Balance Sheet as part of property, plant and equipment. The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

2.22 Shared ownership properties

The cost of unsold shared ownership properties and those under construction is split according to the proportion of the property that will be sold. The proportion to be sold is included in inventories and the proportion to be retained is included in fixed assets. Gross sale proceeds and associated costs of sale are reflected in the Comprehensive Income and Expenditure Statement of the period in which the disposal occurs. The retained element of HRA shared ownership properties is stated at Social Housing Existing Use Value similar to other HRA properties.

2.23 Assets Held for Sale

Assets are classified as held for sale when it is expected that their carrying amount will be recovered primarily through sale rather than continued use. Prior to reclassification, the asset is revalued and then carried at the lower of this amount and fair value less costs to sell. Any subsequent reductions in value are recognised in the Comprehensive Income and Expenditure Statement, while gains are recognised only to the extent of previous losses recognised in the surplus or deficit on provision of services. Depreciation is not charged on assets held for sale.

If an asset no longer meets the criteria to be held for sale, it is reclassified back to non-current assets and measured at the lower of it carrying amount before classification (adjusted for any depreciation or revaluation that would have been recognised) and its recoverable amount.

Employee benefits

2.24 Employee benefits

- **Benefits payable during employment**

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end that employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services but then reversed out through the

2.24 Employee benefits continued

Movement in Reserves Statement to the accumulated absences account so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

- **Termination benefits**

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the finance and governance line in the Comprehensive Income and Expenditure Statement at the earliest of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructure.

- **Post employment benefits**

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' pensions on behalf of the Department for Education
- The Local Government Pensions Scheme, administered by Southwark council and the London Pension Fund Authority
- The NHS Pension Scheme, administered by NHS pensions

All the schemes provide defined benefits to members, i.e. retirement lump sums and pensions, earned as employees worked for the council.

The arrangements for the teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. These schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

- **Local Government Pension Scheme**

Local Government Pension Scheme is accounted for as a defined benefit scheme. The council contributes to two pension funds – its own, the London Borough of Southwark Pension Fund, and that of the London Pension Fund Authority Pension Fund. The council's shares of its liabilities in both funds are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, the disclosures in note 38 to the Statement of Accounts set out the discount rates and assumptions applied by each fund.

The assets of funds attributable to the council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

The change in the net pensions liability is analysed into the following components:

- Current Service Cost – the increase in liabilities as a result of years of service earned this year, allocated in the CIES to the services for which the employees worked.
- Past Service Cost – the increase in liabilities as a result of a scheme amendment or curtailment, whose effect relates to years of service earned in earlier years, debited to the surplus or deficit on the provision of services in the CIES.
- Net Interest Cost – the expected change in the present value of net liabilities that arises from the passage of time, charged to the financing and investment income and expenditure line in the CIES.
- Return on Assets – excluding amounts included in net interest on the net defined benefit liability, charged to the financing and investment income and expenditure line in the CIES.
- Actuarial Gains and Losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions; charged to the pensions reserve as other comprehensive income and expenditure
- Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense

2.24 Employee benefits continued

- **Discretionary benefits**

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme

Financial Instruments

2.25 Financial Instruments

Financial instruments are recognised on the Balance Sheet when the council becomes a party to the contractual provisions and are initially measured at fair value.

- **Financial liabilities**

Financial liabilities are subsequently measured at amortised cost. For most of the council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest.

Annual charges to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

- **Financial assets**

Financial assets are recognised when the Council becomes a party to the contractual arrangements and are classified as:

  - Amortised cost – These represent loans and loan-type arrangements where repayments of interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.
  - Fair value through other comprehensive income (FVOCI) – These assets are measured at fair value, with gains and losses recognised in other comprehensive income.
  - Fair value through profit or loss (FVTPL) – These assets are measured at fair value, with movements recognised in the surplus or deficit on provision of services.

- **Expanded credit loss**

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances are debited/credited to the financing and investment income and expenditure line in the CIES.

Provisions, contingent liabilities and contingent assets

2.26 Provisions

Provisions are recognised where the Council has a present legal or constructive obligation as a result of a past event, it is probable that a settlement will be required, and the amount can be reliably estimated. Provisions are charged to the relevant service line in the CIES and measured at the best estimate at the balance sheet date. They are reviewed annually and adjusted where necessary. Where a settlement is no longer probable or the estimate reduces, the provision is reversed.

2.27 Contingent liabilities

Contingent liabilities arise where there is a possible obligation that depends on uncertain future events, or where an obligation exists but it is not probable or cannot be measured reliably. These are not recognised in the Balance Sheet but are disclosed in the notes to the accounts.

2.28 Contingent assets

Contingent assets arise where there is a possible asset dependent on uncertain future events. These are not recognised in the Balance Sheet but are disclosed in the notes where appropriate.

Group Accounts

2.29 Schools

The Code specifies that all schools maintained by the council are deemed to be under the council's control. The transactions and balances attributable to the governing bodies of the maintained schools have been consolidated into the council's financial statements, applying accounting policies for recognition and measurement consistent with those applied by the council to its own income, expenditure, cash flows, assets and liabilities. Transactions and balances between the council and schools have been eliminated.

2.30 Interests in companies and other entries

The nature of the relationship between the council and the maintained schools is not similar to a parent entity and its subsidiaries, associates or joint ventures, therefore, it does not merit for group accounts to be prepared. Additionally, review of the council's relationships with third parties has determined that there are no such interests in companies and other entities

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

There are no changes in accounting requirements for 2026/27 that are anticipated to have a material impact on the Council's financial performance or financial position.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in note 2, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in preparing the Statement of Accounts are as follows:

4.1. Accounting for schools' non-current assets and financial statements

An accounting judgement has been made for each of the council's maintained schools as to whether their non-current assets - land and buildings - should be included on the council's own balance sheet. The council has assessed the legal framework for the different types of schools and has determined the following. The council recognises the assets of community, nursery and some special schools because the rights and obligations associated with them rest with the council. However, foundation and voluntary aided schools in the borough are not controlled by the council so their assets are not recognised on the council's balance sheet, including for PFI schemes.

School assets for community schools are recognised on the Balance Sheet, as the Council retains the risks and responsibilities for these properties. In contrast, assets relating to academies, voluntary aided, voluntary controlled and free schools are not recognised, as they are not controlled by the Council. These assets are considered to be owned by the relevant academy trusts, dioceses or other responsible bodies.

	Number of schools	Value of land and buildings recognised
Community schools, nursery schools and special schools	38	£579.4m
Voluntary aided faith schools and foundation schools	20	

4.2. Accounting for temporary accommodation leases

From 1 April 2024, the Council has adopted IFRS 16 for lease arrangements where it is the lessee. A key judgement is the determination of the lease term for temporary accommodation properties.

Based on established operational practice, the Council has determined that a two-year period represents the normal business term over which such properties are utilised. Accordingly, an average lease term of two years has been applied across the portfolio. Actual utilisation may vary, which could impact the valuation of right-of-use assets and lease liabilities in future periods.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts includes estimates and assumptions made by the council about the future or that are otherwise uncertain. These estimates are informed by historical experience, current trends and other relevant factors. However, actual outcomes may differ materially from those assumptions and estimates. The items in the council's Balance Sheet as at 31 March 2026 that carry a significant risk of material adjustment are: Valuation of Properties; Right of Use Assets and Defined Benefit Pension Liability.

5.1. Valuation of Operational Properties

Operational properties are measured at current value in accordance with the CIPFA Code and IFRS 13 using DRC, EUV and market comparables. From 1 April 2025, the Council has adopted a quinquennial valuation approach, with 2025/26 as the base year in which all operational properties were fully valued. In subsequent years, asset values will be updated through indexation in line with the Code.

Estimates and assumptions underpin both asset values and Remaining Useful Lives (RUL), giving rise to estimation uncertainty. Indexation reflects general market movements rather than asset-specific valuations and is based on indices selected by management in consultation with the Council's valuers.

The key drivers of estimation uncertainty include:

i. **Indexation sensitivity:** Asset values are sensitive to the indices applied. A 5% reduction in the indices used (including BCIS for DRC valuations) would decrease asset valuations by approximately £41m, recognised in the Revaluation Reserve (or CIES where applicable) and reversed through the MiRS to the Capital Adjustment Account, with no impact on usable reserves.
ii. **Remaining Useful Lives (RUL):** Changes in RUL affect depreciation charged to the CIES. For this asset class, annual depreciation is £21m (Note 13).

5.2. Valuation of Housing Revenue Account (HRA) Dwellings (part of PPE)

The Council's HRA dwellings are valued using the beacon methodology, where representative properties are valued using market evidence and extrapolated across the stock by archetype and location. For 2025/26, a 25% adjustment factor has been applied for Economic Use Value for Social Housing (EUV – SH), consistent with prior years and in line with DCLG guidance. The most significant driver of value is market value which is sensitive to : Local housing supply and demand; lending conditions and interest rate fluctuations. A 5% reduction in market value would decrease the EUV-SH valuation by approximately £178m. This would reduce the RR or result in a loss in the CIES, reversed through the MiRS to the CAA, with no impact on HRA Reserves.

5.3. Valuation of Investment Properties

Investment properties are valued at fair market value using professional techniques that consider factors such as rental income, market yields, location, lease terms, and tenant quality. These valuations reflect how market participants would price the assets.

Where reliable market data is available, it is used to support the valuation. However, in some cases, professional judgement is required, which introduces uncertainty. As a result, the estimated fair value may differ from the price that could be achieved in an actual sale at the reporting date.

5.3 Valuation of Investment Properties continued

The Council holds a large and varied portfolio of investment properties. Due to the complex interplay of assumptions, it is not practical to quantify how changes in individual assumptions would affect valuations. Even small changes can lead to significant shifts that may not reflect real market conditions.

Although changes in valuation affect the reported surplus or deficit CIES, these are reversed through the MiRS, meaning there is no impact on the General Fund balance.

5.4. Temporary Accommodation lease term under IFRS16

The measurement of right-of-use assets and lease liabilities is sensitive to the lease term applied. The Council has assumed an average lease term of two years for temporary accommodation, reflecting normal business practice. This assumption is kept under ongoing review as further information on actual usage becomes available.

A reasonably possible change in the lease term would have a material impact on the carrying value of right-of-use assets and lease liabilities. For example, a six-month change in the assumed lease term would result in a broadly £19m movement in the valuation of these balances.

5.5. Defined Benefits Pension Liability

The council recognises its outstanding liabilities to meet future pensions costs, and accounts for those liabilities in accordance with IAS 19. At 31 March 2026 the outstanding net pensions asset was assessed at £113k (£48k at 31 March 2025). For two of the pension funds the council contributes to, its own and that of the London Pension Fund Authority, the council's outstanding liability is assessed by consulting actuaries to each fund. Estimation by the actuaries of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The effects on the net pension's liability of changes in individual assumptions can be measured. The estimates, assumptions and sensitivity of changes in assumptions are provided in note 38.

6. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet reporting period are those events, both favourable and unfavourable, that occur between the Balance Sheet date and the date when the statement of accounts is authorised for issue.

Two types of events can be identified:

i. those that provide evidence of conditions that existed at the end of the reporting period – the statement of accounts is adjusted to reflect such events
ii. those that are indicative of conditions that arose after the reporting period – the statement of accounts is not adjusted to reflect such events, but where such a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts. There have been no events since 31 March 2026 and up to the date when these accounts were published that require any adjustments to these accounts.

7. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS: ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS

	2025/26				2024/25			
Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000	£000	£000	£000	£000
Children and Adults	2,345	(4,494)	(1,160)	(3,309)	19,744	(1,785)	(9,621)	8,338
Environment, Sustainability and Leisure	(5,554)	(4,595)	25	(10,124)	23,327	(1,962)	(30,115)	(8,750)
Resources	11,116	(2,494)	70	8,692	15,511	(1,029)	51,475	65,957
Governance and Assurance	(48)	(949)	6	(991)	2,708	(414)	(2,947)	(653)
Strategy and Communities	-	(247)	1	(246)	-	(117)	8	(109)
Housing GF	752	(511)	(7)	234	686	(212)	(170)	304
Integrated Health and Care	-	(156)	6	(150)	-	(85)	25	(60)
Housing Revenue Account (HRA)	206,430	(3,896)	90	202,624	139,550	(1,828)	(27,003)	110,719
Net cost of services	**215,041**	**(17,342)**	**(969)**	**196,730**	**201,526**	**(7,432)**	**(18,348)**	**175,746**
Other income and expenditure from the funding analysis	(79,471)	(1,899)	33,193	(48,177)	(128,675)	(1,203)	30,062	(99,816)
Differences between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit	**135,570**	**(19,241)**	**32,224**	**148,553**	**72,851**	**(8,635)**	**11,714**	**75,930**

Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the service line. For other operating expenditure it adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. For financing and investment income and expenditure it adjusts for the statutory charges for capital financing and investment i.e. minimum revenue provision (MRP) and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

For taxation and non-specific grant income and expenditure, capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied through out the year. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net change for the pensions adjustments

This column adjusts for the net change for the renewal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income. For services, this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs. For financing and investment income and expenditure, this adjusts for the **net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.**

7. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS: ADJUSTMENTS BETWEEN FUNDING AND ACCOUNTING BASIS (continued)

Other differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute. For net cost of services other differences, this represents removal of the annual leave accrual adjustment, dedicated schools grant deficit adjustment, finance costs, premiums and financial instruments adjustments. For financing and investment income and expenditure the other differences column recognises adjustments to General Fund for the timing differences for premiums and discounts and financial instruments. The charge under taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the CIPFA Code of Accounting Practice for Local Authorities 2205/26. This is a timing difference as any difference will be brought forward in future surpluses or deficits in the Collection Fund.

An analysis of the nature of Income and Expenditure:

	2025/26	2024/25
	£000	£000
Expenditure		
Employee expenses	462,904	471,961
Other services expenses	853,746	853,765
Depreciation, amortisation and impairment	404,237	323,027
Interest payments	59,836	53,791
Precepts and levies	2,503	2,080
Losses on disposal of assets	(42,150)	29,868
Subtotal	**1,741,076**	**1,734,492**
Income		
Fees, charges and other service income	541,371	(529,904)
Interest and investment income	(11,084)	(1,462)
Income from council tax and business rates (NDR)	(248,936)	(234,624)
Government grants and contributions	(761,869)	(827,622)
Gains on disposal of assets	-	(57,853)
Subtotal	**(1,563,260)**	**(1,651,465)**
(Surplus) / deficit on the provision of services	**177,816**	**83,027**

8. OTHER OPERATING INCOME AND EXPENDITURE

	2025/26	
	£000	£000
Levies	2,085	2,081
(Gain)/loss on the disposal of non-current assets	(40,242)	(27,985)
Total Other Operating Expenditure	**(38,157)**	**(25,904)**

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2025/26	2024/25
	£000	£000
Interest payable and similar charges	59,836	54,994
Net interest on the net defined benefit liability	(1,899)	(1,203)
Interest receivable and similar income	(10,720)	(5,759)
Income, expenditure and changes in the fair value of investment properties	(13,614)	4,297
Total Financing and Investment Income and Expenditure	**33,603**	**52,329**

10. TAXATION AND NON-SPECIFIC GRANT INCOME

	2025/26	2024/25
	£000	£000
Council Tax Income	(140,584)	(140,112)
Non-domestic rates income and expenditure	(108,352)	(94,512)
Un-ringfenced government grants	(117,966)	(120,170)
Capital Grants and contributions	(59,840)	(131,509)
Total Taxation and Non-Specific Grant Income	**(426,742)**	**(486,303)**

11. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments made to the total comprehensive income and expenditure recognised by the council in the year and to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure. This is in accordance with proper accounting practice. The following sets out a description of the reserves that the adjustments are made against.

General Fund balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year. The balance is not available to be applied to fund HRA services.

Housing Revenue Account balance

The Housing Revenue Account balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the council's landlord function. The balance is not available to be applied to fund General Fund services.

The Capital Grants Unapplied account holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the income but which has yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and or the financial year in which this can take place.

11. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS continued

Major repairs reserve

The Major Repairs Reserve controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure for the HRA. The balance shows the capital resources that have yet to be applied at the year-end.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land and other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied account holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the income but which has yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and or the financial year in which this can take place.

	Usable Reserves					
2025/26	**General Fund Balance**	**Housing Revenue Account**	**Major Repairs Reserve**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Adjustments involving the capital adjustment account:						
Depreciation	(73,165)	(49,074)				122,238
Revaluation losses on Property, Plant and Equipment	(9,415)	(269,478)				278,893
Fair value gains/losses on Investment Properties	(5,243)	2,153				3,090
Capital grants and contributions applied	23,302	21,791				(45,093)
Revenue expenditure funded from capital under statute	(14,440)	(640)				15,080
Amounts of non-current assets written off on disposal & derecognition to CIES	-	(24,705)				24,705
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:	22,916	401				(23,317)
Statutory provision for the financing of capital investment (Minimum Revenue Provision)	28,371	-				(28,371)
Lease and PFI repayments	6,777	36,689				(43,466)
Capital expenditure finances from the General Fund and HRA						
Adjustments involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the CIES	14,747	-			(14,747)	-
Application of grants to finance capital expenditure	-	-			14,786	(14,786)
Adjustments involving the Capital Receipts Reserve:						
Transfer of sale proceeds from non-current assets credited to CIES	882	64,007		(64,889)		-
Use of the Capital Receipts to finance capital expenditure	-	-		42,480		(42,480)

Adjustments involving the deferred capital receipts reserve						
Transfer of deferred sale proceeds from disposal of non-current asset to the CIES	-	44				(44)
Transfer from deferred capital receipt reserve upon receipt of cash	-	-		(477)		477
Adjustments primarily involving the Major Repairs Reserve (MRR):						
MRR credited with an amount equal to the depreciation charged to the HRA	-	49,054	(49,054)			-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	49,054			(49,054)
Adjustments primarily involving the Financial Instruments Adjustment Account						
Repayment of premiums	241	825				(1,066)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the CIES	(26,492)	(6,903)				33,395
Employer's pensions contributions and direct payments to pensioners payable in the year	41,443	10,799				(52,242)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(8,301)	-				8,301
Amount by which business rates income credited to the CIES is different from NDR income calculated for the year in accordance with statutory requirements	14,375	-				(14,375)
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,059	(90)				(969)
Adjustments primarily involving the Dedicated schools grant adjustment account:						
Movement of negative Dedicated Schools grant reserve to the DSG adjustment account	-	-				-
Total adjustments	**17,058**	**(165,127)**	**-**	**(22,886)**	**39**	**170,916**

2024/25	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(69,512)	(46,429)				115,941
Revaluation losses on Property, Plant and Equipment	(25,839)	(181,250)				207,089
Movements in the fair value of Investment Properties	(22,001)	(204)				22,205
Capital grants and contributions applied	24,518	22,696				(47,214)
Revenue expenditure funded from capital under statute	(19,680)	(597)				20,277
Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	(3,032)	(26,836)				29,868
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Provision to reduce the capital financing requirement (minimum revenue provision MRP)	15,135	-				(15,135)
Lease and PFI repayment	24,763	387				(25,150)
Capital expenditure charged against the General Fund and HRA balances	4,850	41,450				(46,300)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	84,296	-			(84,296)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-			8,031	(8,031)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,803	48,832		(51,635)		-
Transfer from deferred debtors to usable capital receipts	-	-				-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-		51,729		(51,729)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	-		-		-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-	-		-		-
Adjustments primarily involving the deferred capital receipts reserve						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	6,355				(6,355)
Transfer to the Capital Receipts Reserve upon receipt of cash	-	-				-
Adjustments primarily involving the Major Repairs Reserve (MRR):						
MRR credited with an amount equal to the depreciation charged to the HRA	-	46,444	(46,444)			-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-				-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	46,444			(46,444)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Repayment of premiums	241	824				(1,065)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	-				-
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(30,392)	(9,910)				40,302
Employer's pensions contributions and direct payments to pensioners payable in the year	36,903	12,034				(48,937)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(5,175)	-				5,175
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	(6,339)	-				6,339
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,207)	(58)				1,265
Adjustments primarily involving the Dedicated schools grant adjustment account:						
Movement of negative Dedicated Schools grant reserve to the DSG adjustment account	-	-				-
Total adjustments	**10,332**	**(86,262)**	**-**	**94**	**(76,265)**	**152,101**

12. USABLE RESERVES

Reserves represent the authority's net worth and show its spending power. Usable reserves result from the authority's activities and can be spent in the future. This note sets out the amounts set aside and posted back to Usable Reserves in 2025/26, they include:

- **General Fund Reserve** – to cushion the impact of unexpected events or emergencies
- **Earmarked Reserves** – to provide financing to meet known or predicted future General Fund expenditure plans, and to carry forward revenue grants to meet grant funded revenue projects and commitments
- **School Balances** – amounts set aside for future expenditure in schools
- **HRA Reserves** - amounts specifically required by statute to be set aside and ringfenced for future investment in HRA
- **Capital Reserves** – includes capital receipts and capital grants set aside to finance future capital spending plans

	1 April 2025	Transfer out 2025	Transfer in 2025	31 March 2026	1 April 2024	Transfer out 2024	Transfer in 2024	31 March 2025
	£000	£000	£000	£000	£000	£000	£000	£000
General Fund Reserve	**(22,443)**	**-**	**-**	**(22,443)**	**(22,443)**	**-**	**-**	**(22,443)**
Earmarked Reserves:								
Corporate projects and priorities reserves	(58,932)	1,546	-	(57,386)	(63,567)	4,635	-	(58,932)
Service reviews and improvement reserves	(59,672)	16,455	-	(43,217)	(58,338)	-	(1,334)	(59,672)
Capital programme and other capital investment reserves	(26,618)	-	(1,469)	(28,087)	(29,754)	3,136	-	(26,618)
Strategic financial risk reserves	(44,016)	19,867		(24,150)	(48,491)	4,475	-	(44,016)
Technical liabilities and smoothing reserves	(39,526)	-	(4,218)	(43,744)	(42,295)	2,769	-	(39,526)
Revenue grants reserve	(2,100)	252	-	(1,848)	(2,347)	247	-	(2,100)
Total Earmarked Reserves	**(230,864)**	**38,120**	**(5,687)**	**(198,432)**	**(244,792)**	**15,262**	**(1,334)**	**(230,864)**
Schools Reserves								
Schools DSG Reserve	(15,865)	-	(1,050)	(16,915)	(12,937)	-	(2,928)	(15,865)
Schools balances	(15,053)	1,833	-	(13,220)	(15,059)	6	-	(15,053)
Total Schools Reserves	**(30,918)**	**1,833**	**(1,050)**	**(30,135)**	**(27,996)**	**6**	**(2,928)**	**(30,918)**
HRA Reserves								
HRA General Reserve								
Major Repairs Reserve								
HRA General Reserve	(20,831)	-	(3,953)	(24,784)	(16,921)	-	(3,910)	(20,831)
Major Repairs Reserve	-	-	-	-	-	46,444	(46,444)	-
Total HRA Reserves	**(20,831)**	**-**	**(3,953)**	**(24,784)**	**(16,921)**	**46,444**	**(50,354)**	**(20,831)**
Capital Reserves								
Capital Receipts Reserve	(102,412)	42,480	(65,366)	(125,298)	(102,506)	51,729	(51,635)	(102,412)
Capital Grants Unapplied Reserve	(95,971)	19,004	(18,483)	(95,450)	(19,706)	8,031	(84,296)	(95,971)
Total Capital Reserves	**(198,383)**	**61,484**	**(83,849)**	**(220,748)**	**(122,212)**	**59,760**	**(135,931)**	**(198,383)**
Total Usable Reserves	**(503,439)**	**101,437**	**(94,539)**	**(496,542)**	**(434,364)**	**121,472**	**(190,547)**	**(503,439)**

13. PROPERTY, PLANT AND EQUIPMENT (PP&E)

This note summarises the changes that have taken place during the year to the carrying amounts of the council's net book value of property, plant and equipment.

2025/26	Council Dwellings	Other Land and Buildings	ROU Assets Land and Buildings	Vehicles, Plant, Furniture & Equipment	*Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	TOTAL PP&E	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value										
Opening balance	3,544,147	1,179,223	38,306	168,990	325,508	40,302	7,789	513,859	**5,818,124**	95,901
Additions	91,825	36,760	42,351	28,132	28,847	2,257	-	105,584	**335,756**	3,368
Revaluation increases/(decreases) recognised in the Revaluation Reserve	47,618	(34,072)	2,147	-	-	-	(3,838)	-	**11,855**	-
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(266,691)	(925)	-	-	-	-	(10,980)	(297)	**(278,893)**	(2,850)
Derecognition – Disposals	(11,333)	(388)	(36,068)	-	-	-	-	-	**(47,789)**	-
Depreciation write back on revaluation	(46,060)	-	-	-	-	-	-	-	**(46,060)**	-
Assets reclassified	203,612	24,558	-	(56,360)	-	-	14,250	(241,672)	**(55,612)**	13,646
Balance as at 31 March 2026	**3,563,118**	**1,205,156**	**46,736**	**140,762**	**354,355**	**42,559**	**2,221**	**377,474**	**5,737,381**	**110,065**
Depreciation and Impairment										
Opening balance	(3)	(3,896)	(17,769)	(103,879)	-	(901)	-	(196)	**(126,644)**	(17,588)
Depreciation charge	(46,067)	(20,563)	(21,197)	(11,654)	(22,983)	-	(23)	-	**(122,487)**	(2,331)
Depreciation written out on revaluations recognised in the Revaluation Reserve	46,060	21,222	-	-	-	-	276	-	**67,558**	
Derecognition – Disposals	204	113	17,769	-	-	-	-	-	**18,0867**	-
Depreciation write back on revaluation	-	-	-	-	-	-	-	-	**-**	666
Assets reclassified	(194)	393	-	56,358	-	-	(253)	196	**56,500**	2,552
Balance as at 31 March 2026	**-**	**(2,731)**	**(21,197)**	**(59,175)**	**(22,983)**	**(901)**	**-**	**-**	**(106,987)**	**(16,701)**
Net Book Value at 31 March 2026	**3,563,118**	**1,202,425**	**25,539**	**81,857**	**331,372**	**41,658**	**7,221**	**377,474**	**5,630,394**	**93,364**

13. PROPERTY, EQUIPMENT AND PPE continued

2024/25	Council Dwellings	Other Land and Buildings	ROU Assets Land and Buildings	Vehicles, Plant, Furniture & Equipment	*Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	TOTAL PP&E	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross Book Value										
Opening balance	3,392,146	1,196,959	-	146,704	334,429	19,197	13,284	622,673	**5,725,392**	93,523
Additions	64,487	21,197	38,306	22,286	31,860	1,805	10	142,586	**322,537**	2,378
Revaluation increases/(decreases) recognised in the Revaluation Reserve	52,763	20,898	-	-	-	-	(6,014)	-	**67,647**	-
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(198,230)	(30,063)	-	-	-	-	(156)	-	**(228,449)**	-
Derecognition – Disposals	(6,510)	(2,573)	-	-	-	-	-	-	**(9,083)**	-
Derecognition – Other	-	-	-	-	-	-	-	-	**-**	-
Assets reclassified	239,491	(27,195)	-	-	(19,014)	19,300	665	(251,400)	**(38,153)**	-
Balance as at 31 March 2025	**3,544,147**	**1,179,223**	**38,306**	**168,990**	**347,275**	**40,302**	**7,789**	**513,859**	**5,839,891**	**95,901**
Depreciation and Impairment										
Opening balance	(2)	(8,482)	-	(94,734)	-	(901)	-	(196)	**(104,315)**	(14,707)
Depreciation charge	(44,129)	(23,124)	(17,769)	(9,145)	(21,767)	-	(21)	-	**(115,955)**	(2,881)
Depreciation written out on revaluations recognised in the Revaluation Reserve	27,023	23,099	-	-	-	-	21	-	**50,143**	
Depreciation written out on revaluations recognised in the Surplus/Deficit on the Provision of Services	16,995	4,364	-	-	-	-	-	-	**21,359**	-
Derecognition – Disposals	110	247	-	-	-	-	-	-	**357**	-
Derecognition – Other	-	-	-	-	-	-	-	-	**-**	-
Assets reclassified	-	-	-	-	-	-	-	-	**-**	-
Balance as at 31 March 2025	**(3)**	**(3,896)**	**(17,769)**	**(103,879)**	**(21,767)**	**(901)**	**-**	**(196)**	**(148,411)**	**(17,588)**
Net Book Value at 31 March 2025	**3,544,144**	**1,175,327**	**20,537**	**65,111**	**325,508**	**39,401**	**7,789**	**513,663**	**5,691,480**	**78,313**

*Infrastructure assets

In accordance with the temporary relief offered by the update to the Accounting Code on infrastructure assets this note does not include a disclosure of gross costs and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position (as rather than manually derecognising infrastructure components as they are replaced we assume (as per adoption of the Statutory Instrument issued by central government (DLUHC) in December 2022) that the assets being replaced have a gross book value of nil). The council is assured that this is the case following a review of the useful lives reported and assert that overall assets are being replaced in line with the useful lives proposed in the accounting policy.

The valuation of assets, as at 31 March 2026, has been carried out by Cluttons LLP, in accordance with the Statement of Asset Valuation Practices and Guidance Notes of the Royal Institute of Chartered Surveyors. High value assets such as schools are valued ever year, Other Land and Buildings (OLB) which are not high value and Surplus Assets are valued at 31 March normally on a 20% rolling basis to ensure valuation of all assets in this category are within five years. However for this year 100% of assets have been valued. Council dwellings are valued every year at their existing use based on 'Beacon' valuation principles and have a social housing adjustment element to reduce the balance sheet value to 25% of

the beacon value, as directed by MHCLG. Additionally, a review of assets under construction as well as general impairments to assets are carried out on an annual basis.

13. PROPERTY, EQUIPMENT AND PPE continued

At 31 March 2026, the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2025/26 and future years budgeted to cost £ million. Similar commitments at 31 March 2025 were £249.8 million.

The commitments are as below:

	2025/26	2024/25
	£m	£m
General Fund	40.3	9.8
Housing Revenue Account	178.2	240.0
Total	**218.5**	**249.8**

The highest value contractual commitments are:

General Fund

	2025/26	2024/25
	£m	£m
New Beormund Social, Emotional and Mental Health (SEMH) need School Development	8.7	0.3
Elephant and Castle, Tube Station Improvements	5.2	1.1

Housing Revenue Account

	2025/26	2024/25
	£m	£m
Ledbury Towers New Build	132.1	157.5
Tustin Low Rise Works Phase 1	0	12.7
66 Linden Grove	0	9.2
Refurbishment of Taplow Block (Aylesbury Estate) Flats	8.6	-
Stock Condition Survey of Council Homes	8.1	
Consort Estate Quality Homes Investment Programme Works	6.8	
Aylesbury H&S Works 23/24 Phase 2		6.6
Albion New Homes-Construction		3.5

Depreciation

Depreciation is calculated on a straight-line basis on the range of assets' useful lives:

- Council Dwellings - weighted average life based on major components – typically 50-60 years
- Other operational buildings – as valuation – 10-60 years
- Surplus assets – as valuation – 9-40 years
- Vehicles, furniture and IT hardware – 5-8 years
- Plant, fittings and play equipment – 7-15 years
- Infrastructure assets as per the table below

Category of Infrastructure Asset	Useful Economic Life
Build & Architecture, Street Furniture	15
Carriageway, Street Lighting, Highway Drainage & Hard Landscaping	25
Footways	30
Highways Structure	50
Soft Landscaping	5
Parks Infrastructure	10

13. PROPERTY, EQUIPMENT AND PPE continued

Valuations

The Council operates the following programme for valuations

- Council Dwellings are valued annually – Existing use value for social housing
- Asset Held for Sale are valued annually – Lower of carrying amount or fair value less costs to sell
- Property Plant and Equipment – Quinquennial – 2025/26 is the baseline year for full valuation followed by annual indexation.
- Other Land and Building – Existing Use Value & Depreciated Replacement Cost
- Surplus Assets – Fair Value
- Leased Assets – lower of either their fair value or the present value of the minimum lease payments

14. INVESTMENT PROPERTIES

The income and expenditure on investment assets was as follows:

	2025/26	2024/25
	£000	£000
Rental income from investment property	(23,519)	(23,619)
Fair value adjustments - (upwards)/downwards revaluation	(3,115)	22,190
Direct operating expenses arising from investment property	13,020	5,726
Net (gain)/loss included in Financing and Investment Income in CIES	**(13,614)**	**4,297**

The movement in the fair value of investment properties held was as follows:

	2025/26	2024/25
	£000	£000
Balance as at 1 April	**307,511**	**290,176**
Additions	5,046	3,130
Disposals	(5,981)	(1,707)
Net gains/(losses) from fair value adjustments	(3,115)	(22,190)
Transfers (to)/from property, plant and equipment (PPE)	(3,567)	38,102
Balance as at 31 March	**299,894**	**307,511**

Valuation Process for Investment Properties

Investment properties were valued by Cluttons in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors and in compliance with CIPFA guidelines.

Fair Value Hierarchy

The Valuers use valuation techniques that are appropriate for investment property. The investment portfolio contains a wide mix of properties. Majority of the portfolio fall in the category where they are regarded as more standard asset types and for which sufficient market data is available, enabling the valuer to maximise the use of relevant observable inputs and minimising the use of unobservable inputs. Quoted rents and yields for comparable assets transacted are subject to adjustment as necessary in the valuers judgement to equate the available evidence with the subject of the valuation. The fair value for these investment properties (at market rents) has been based on the market approach using current market conditions at the valuation date and recent transactions and other relevant information for similar assets. Market conditions are such that similar properties are actively transacting and the level of observable inputs are high, leading to these properties being categorised at Level 2 in the fair value hierarchy. The other assets within the investment portfolio require more subjectivity or a wider review of observable inputs. For these assets evidence may either be historic or may not be available at all. Accordingly, the valuation of such assets is more subjective and relies more on the valuer's judgement and experience in formulating the Fair Value.

15.a. ASSETS HELD FOR SALE

	Current	
	2025/26	2024/25
	£000	£000
Balance at 1 April	**7,798**	**18,972**
Additions		-
Transfers (to)/from property, plant and equipment (PPE)	2,700	51
Revaluation gains/(losses) taken to Surplus or Deficit on the Provision of Services	1,325	-
Assets sold	(4,038)	(11,225)
Balance at 31 March	**7,785**	**7,798**

15.b. INVENTORIES

	2025/26			2024/25		
	Property acquired or constructed for sale	General Stores	Total	Property acquired or constructed for sale	General Stores	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April	**3,283**	**447**	**3,730**	**11,492**	**512**	**12,004**
Purchases		51	**51**		-	**-**
Transfers (to)/from property, plant and equipment (PPE)		-	**-**		-	**-**
Assets sold or expensed in year	(3,283)		**(3,283)**	(8,209)	(65)	**(8,274)**
Balance at 31 March	**-**	**498**	**498**	**3,283**	**447**	**3,730**

The council holds inventories which are made up of 2 types - Property units for sale and General Stores which holds materials for asset management such as public lighting, signs, park, etc and cleaning materials.

16. CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The balance of cash and cash equivalents is made up of the elements set out below. The bank overdraft is a function of the council's utilisation of multiple pooled bank accounts and is integral to the day-to-day cash management of the council. The bank overdraft includes all outstanding and unpresented items.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

16. CASH AND CASH EQUIVALENTS continued

	31 March 2026	31 March 2025
	£000	£000
Cash held by the council	1,176	1,833
Cash equivalents		
Short-term funds in money markets	73,100	53,506
Subtotal	**74,276**	**55,339**
Bank current accounts (bank overdraft)	(3,832)	(4,482)
Total cash and cash equivalents	**70,444**	**50,857**

17. DEBTORS AND IMPAIRMENT ALLOWANCE

	31 March 2026				31 March 2025			
	GROSS Short-term Debtors	Impairment Allowance	NET Short-term Debtors	Long-term Debtors	GROSS Short-term Debtors	Impairment Allowance	NET Short-term Debtors	Long-term Debtors
	£000	£000	£000	£000	£000	£000	£000	£000
Trade receivables	140,416	(66,044)	74,372	31,539	137,723	(66,765)	70,958	33,172
Central government bodies	29,890		29,890		40,762	-	40,762	-
Council Tax receivable from taxpayers	46,981	(33,775)	13,206		49,640	(27,186)	22,454	-
Housing benefit debtors	18,315	(8,910)	9,405		18,386	(8,783)	9,603	-
Non domestic rates receivable from taxpayers	12,107	(6,637)	5,470		10,295	(6,079)	4,216	-
Payments in advance	6,687		6,687		5,992	-	5,992	-
Public bodies	15,671		15,671		12,411	-	12,411	-
Total	**270,067**	**(115,366)**	**154,701**	**31,539**	**275,209**	**(108,813)**	**166,396**	**33,172**

Debtors with central government bodies, council tax, housing benefit, non-domestic rates and payments in advance are included as a non-financial asset under note 39 Financial Instruments (£80.3m), because they do not meet the definition of a financial asset.

The amount due from central government bodies and other local authorities excludes the GLA's share and central government's share of the Collection Fund deficit.

17. DEBTORS AND IMPAIRMENT ALLOWANCE continued

DEBTORS FOR LOCAL TAXATION

The net debt for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

Age of debt	31 March 2026			31 March 2025		
	£000	£000	£000	£000	£000	£000
	Council Tax	NNDR	Total	Council Tax	NNDR	Total
Less than 1 year	6,560	3,672	10,233	7,260	3,221	10,481
Between 1 and 2 years	2,267	1,150	3,418	5,337	584	5,921
Between 2 and 3 years	1,933	416	2,350	4,330	294	4,624
More than 3 years	2,444	231	2,675	5,527	117	5,644
Total Council's share	**13,206**	**5,470**	**18,675**	**22,454**	**4,216**	**26,670**

18. CREDITORS

	31 March 2026		31 March 2025	
	Short-term Creditors	Long-term Creditors	Short-term Creditors	Long-term Creditors
	£000	£000	£000	£000
Trade payables	(136,885)	(4,133)	(122,743)	(416)
Central government bodies	(19,169)		(9,356)	
Council Tax refundable to taxpayers	(4,804)		(8,121)	
Non domestic rates refundable to taxpayers	(8,687)		(13,605)	
Employee Benefits	(7,102)		(8,071)	
PFI finance liability	(5,270)	(58,062)	(4,743)	
Finance (RoU) lease liability	(21,361)	(5,863)	(18,172)	
Public bodies	(35,239)		(21,309)	
Receipts in advance	(42,510)		(33,118)	
Total	**(281,027)**	**(68,058)**	**(239,238)**	**(416)**

Creditors with central government bodies, council tax, non-domestic rates and receipts in advance are included as a non-financial liability in note 39 Financial Instruments (£117.5m), because they do not meet the definition of a financial liability.

19. PROVISIONS

The Insurance provision represents amounts set aside to meet known liabilities but where settlements have not been agreed. Payment for these claims will be made over a number of years. The provision includes an amount in respect of Municipal Mutual Insurance (MMI). The council is responsible for its share of any claims where the incident occurred prior to 31 March 1996.

19. PROVISIONS continued

2025/26	1 April 2025	Increase during year	Utilised during year	31 March 2026
	£000	£000	£000	£000
Long-term provisions				
Insurance provision	(8,803)	(1,743)	595	(9,951)
Business rates appeals	(1,621)		422	(1,199)
Employees related	(500)	(363)	249	(614)
Housing & Modernisation provisions	(967)	(5,257)	953	(5,271)
Total Long-term provisions	**(11,891)**	**(7,363)**	**2,219**	**(17,035)**
Short-term provisions				
Business rates appeals	(7,803)		3,976	(3,827)
Employees related	-	(1,432)	-	(1,432)
Total Short-term provisions	**(7,803)**	**(1,432)**	**3,976**	**(5,259)**

2024/25	1 April 2024	Increase during year	Utilised during year	31 March 2025
	£000	£000	£000	£000
Long-term provisions				
Insurance provision	(6,684)	(2,119)	-	(8,803)
Business rates appeals	(93)	(1,528)	-	(1,621)
Employees related	(740)	-	240	(500)
Housing & Modernisation provisions	(1,039)	-	72	(967)
Civil refunds	(356)	-	356	-
Other	(52)	-	52	-
Total Long-term provisions	**(8,964)**	**(3,647)**	**720**	**(11,891)**
Short-term provisions				
Business rates appeals	(5,924)	(1,879)	-	(7,803)
Total Short-term provisions	**(5,924)**	**(1,879)**	**-**	**(7,803)**

20. DEDICATED SCHOOLS GRANT

The council's expenditure on schools is funded primarily by grant provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department for Education to fund academy schools in the council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2013. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2025/26 are as follows:

20. DEDICATED SCHOOLS GRANT continued

	Central Expenditure	Individual Schools Budgets	Total	Total
			2025/26	2024/25
	£000	£000	£000	£000
Final DSG before academy and high needs figure recoupment			(429,201)	(395,746)
Academy and High needs figure recouped			197,011	182,815
Total DSG after academy and high needs figure recoupment			**(232,190)**	**(212,931)**
Plus: Brought forward from previous year			(15,865)	(12,937)
Less: Carry-forward agreed in advance			15,865	12,937
Agreed initial budgeted distribution for the year	(112,631)	(119,559)	**(232,190)**	**(212,931)**
In year adjustments	(4,848)	-	**(4,848)**	(3,127)
Final budget distribution for the year	(117,479)	(119,559)	**(237,038)**	**(216,058)**
Less: Actual central expenditure	116,429	-	**116,429**	88,093
Less: Actual ISB deployed to schools	-	119,559	**119,559**	125,037
Plus: Local authority contribution	-	-	**-**	-
In-year Carry-forward (Surplus)/Deficit	**(1,050)**	**-**	**(1,050)**	**(2,928)**
Plus: Carry-forward agreed in advance			(15,865)	(12,937)
Carry-forward Deficit			**(16,915)**	**(15,865)**
DSG unusable reserve as at 1 April			21,651	21,651
Addition to DSG unusable reserve during the year			1	-
Total of DSG unusable reserve as at 31 March (Note 23)			**21,652**	**21,651**
Net DSG position as at 31 March			**4,737**	**5,786**

The final DSG before academy recoupment figure includes a provision for the early years block. Final DSG allocations are announced in June following the end of each financial year based on census figures at the preceding January.

The DSG unusable reserve is part of the Safety Valve agreement to reduce accumulated DSG deficits. The deficit is held on the unusable reserve, while the useable reserve contains funding contributions. Over the agreed period of the Safety Valve the two reserves should equal each other, thereby removing the accumulated DSG deficit.

Per Note 12 Usable Reserve and Note 23 Unusable Reserves **Dedicad Schools Grant balances**	2025/26 £000	2024/25 £000
DSG unusable reserve as at 1 April	21,651	21,651
Addition to DSG unusable reserve during the year	**1**	-
Total of DSG unusable reserve as at 31 March (Note 23)	**21,652**	**21,651**
DSG usable reserve as at 1 April	(15,865)	(12,937)
Addition to DSG usable reserve during the year	(1,050)	(2,928)
Total of DSG usable reserve as at 31 March (Note 12)	**(16,915)**	**(15,865)**
Dedicated Schools Grant net accumulated balance	**4,737**	**5,786**

21. GRANT INCOME

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	2025/26	2024/25
	£000	£000
Credited to Taxation and Non Specific Grant Income		
Capital grants and contributions	(50,552)	(54,396)
Revenue support grant	(45,827)	(44,969)
Business rates (top up)/tariff	(34,766)	(33,901)
Business rates relief/section 31 grants	(34,561)	(36,046)
New homes bonus	(2,812)	(4,445)
Lower tier support grant	0	(809)
Community infrastructure levy	(9,288)	(77,113)
Sub total	**(177,806)**	**(251,679)**
Credited to Provision of Services		
Admin grant	(34,898)	(18,874)
Dedicated Schools grant	(232,488)	(214,487)
Housing Benefits Subsidy - rent rebates granted to HRA tenants	(52,818)	(68,828)
Housing Benefits Subsidy - rent allowances	(44,304)	(52,923)
Public Health grant	(29,151)	(31,685)
Housing Benefits Subsidy - non HRA rent rebates	(21,368)	(20,772)
Better Care Fund	(44,102)	(39,248)
Social Care Support grant	(48,981)	(36,362)
The Private Finance Initiative (PFI)	(7,158)	(9,935)
Pupil Premium grant	(9,682)	(9,565)
Homelessness prevention grant	(11,419)	(7,330)
Market Sustainability grant	(6,872)	(6,872)
Other specific grants individually less than £5 million	(47,205)	(59,062)
Sub total	**(590,446)**	**(575,943)**
Total	**(768,253)**	**(827,622)**

Capital grants received in advance and applied towards capital expenditure were:

	2025/26	2024/25
	£000	£000
Balance as at 1 April	(135,495)	(174,007)
New capital grants received in advance	(54,898)	(92,997)
Amounts released to the CIES (conditions met)	(26,352)	131,509
Balance as at 31 March	**(164,040)**	**(135,495)**

21. GRANT INCOME continued

The balance of capital grants unapplied remaining as receipts in advance were:

	2025/26	2024/25
	£000	£000
Planning Gains	(80,204)	(55,405)
Schools	(753)	(877)
New Homes	(72,948)	(75,458)
Other grants	(10,135)	(3,755)
Balance as at 31 March	**(164,040)**	**(135,495)**

22.POOLED BUDGETS

Better Care Fund (BCF)

Southwark council and NHS South East London Integrated Care Board (NHS SEL ICB) are partners in the provision of services to support reduced hospital admissions and length of stay. Joint arrangements of this type are permitted under Section 75 of the National Health Service Act 2006. The BCF provides various services to residents of Southwark who benefit from specific targeted interventions, as well as supporting hospitals to treat people closer to their homes and communities. The council is the lead authority for the arrangement.

	2025/26		2024/25	
	£000	£000	£000	£000
Funding Provided to the Pooled Budget:				
· Council	(46,341)		(24,110)	
· Integrated Care Board (ICB)	(11,375)		(35,115)	
		(57,716)		**(59,225)**
Expenditure met from the pooled budget:				
· Council	46,341		46,777	
· Integrated Care Board (ICB)	11,375		12,448	
		57,716		**59,225**
Net (surplus)/deficit arising on the pooled budget		**-**		**-**

Integrated Community Equipment Store (ICES)

Southwark council and the NHS SEL ICB also operate pooled fund arrangements for an integrated community equipment service. The council is the lead authority for the arrangement. Expenditure met from the pooled budget was £2.75m in 2025-26 (£2.89m in 2024-25) with LBS' share of expenditure standing at 35%.

23. UNUSABLE RESERVES

Unusable reserves are those that the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'. The Unusable Reserves comprise:

23. UNUSABLE RESERVES continued

	2025/26	2024/25
	£000	£000
Capital Adjustment Account	(2,071,954)	(2,221,912)
Revaluation Reserve	(1,944,367)	(1,959,317)
Pensions Reserve	(113)	(48)
Collection Fund Adjustment Account	15,209	21,283
Financial Instruments Adjustment Account	9,296	10,362
Dedicated Schools Grant Adjustment Account	21,652	21,651
Accumulating Absences Adjustment Account	7,102	8,071
Financial Instruments Revaluation Reserve	-	-
Deferred Capital Receipts Reserve	(8,872)	(9,305)
Total unusable reserves	**(3,972,047)**	**(4,129,215)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis).

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

23. UNUSABLE RESERVES (CAPITAL ADJUSTMENT ACCOUNT) continued

	2025/26		2024/25	
	£000	£000	£000	£000
Balance at 1 April		**(2,221,912)**		**(2,330,819)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	122,238		115,941	
Revaluation losses on Property Plant & Equipment and AHFS	278,893		207,089	
Revenue expenditure funded from capital under statute	15,080		20,277	
Movements in the market value of Investment Properties	3,090		22,205	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	24,705		29,868	
		444,006		**395,380**
Adjusting amounts written out of the revaluation reserve for disposals and restatements	(17,677)		(26,973)	
Adjusting amounts written out of the Revaluation Reserve for the difference between fair value depreciation and historical cost depreciation	(29,804)		(19,497)	
Net written out amount of the cost of non-current assets consumed in the year		**(47,481)**		**(46,470)**
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	(42,480)		(51,729)	
Use of the Major Repairs Reserve to finance new capital expenditure	(49,054)		(46,444)	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(45,093)		(47,214)	
Application of grants to capital financing transferred to the Capital Adjustment Account	(14,786)		(8,031)	
Provision for the financing of capital investment charged against the General Fund and HRA balances	(51,688)		(40,285)	
Capital expenditure charged against the General Fund and HRA balances	(43,466)		(46,300)	
Adjustment between FIAA and CAA				
		(246,567)		**(240,003)**
Balance at 31 March		**(2,071,954)**		**(2,221,912)**

Revaluation reserve

The Revaluation Reserve contains the gains made by the council arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The revaluation reserve contains only revaluation gains accumulated since 1 April 2007, the date that the revaluation reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

23. UNUSABLE RESERVES (REVALUATION RESERVE) continued

	2025/26		2024/25	
	£000	£000	£000	£000
Balance at 1 April		**(1,959,317)**		**(1,887,998)**
Upward revaluation of assets	(56,218)		(239,032)	
Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of Services	23,687		121,239	
Total of surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the provision of Services		**(32,351)**		**(117,793)**
Adjusting amounts written to the Capital Adjustment Account for disposals and restatements		17,677		26,975
Difference between fair value depreciation and historical cost depreciation		29,804		19,499
Balance at 31 March		**(1,944,367)**		**(1,959,317)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2025/26	2024/25
	£000	£000
Balance at 1 April	**(48)**	**(62)**
Remeasurements of the net defined benefit liability	18,782	8,649
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	33,395	40,302
Employer's pension contributions and direct payments payable to pensioners in the year	(52,242)	(48,937)
Balance at 31 March	**(113)**	**(48)**

Collection Fund Adjustment Account

	2025/26	2024/25
	£000	£000
Balance at 1 April	**21,282**	**9,768**
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	(6,073)	11,514
Balance at 31 March	**15,209**	**21,282**

23. UNUSABLE RESERVES (COLLECTION FUND ADJUSTMENT ACCOUNT) continued

The Collection Fund adjustment account is analysed into council tax and business rates:

Collection Fund Adjustment Account - Council Tax	2025/26	2024/25
	£000	£000
Balance at 1 April	**9,766**	**4,591**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	8,301	5,175
Balance at 31 March	**18,067**	**9,766**

Collection Fund Adjustment Account - Business Rates	2025/26	2024/25
	£000	£000
Balance at 1 April	**11,516**	**5,177**
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	(14,375)	**6,339**
Balance at 31 March	**(2,858)**	**11,516**

Financial instruments adjustment account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

Amongst the transactions on this account are premiums paid on the early redemption of loans; premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out to the Movement in Reserves Statement. Over time the expense is posted back to the Movement in Reserves Statement in accordance with statutory arrangements for spreading the burden on council tax.

	2025/26	2024/25
	£000	£000
Balance at 1 April	**10,362**	**11,428**
Adjustment between FIAA and CAA		
Proportion of premiums to be charged against the General Fund Balance in accordance with statutory requirements	(1,066)	(1,066)
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	-	-
Balance at 31 March	**9,296**	**10,362**

Dedicated Schools Grant adjustment account

	2025/26	2024/25
	£000	£000
Balance at 1 April	**21,651**	**21,651**
Transfer of the opening dedicated schools grant deficit from the DSG reserve (earmarked usable reserve) to the DSG adjustment account.	1	-
In year dedicated schools grant deficit	-	-
Balance at 31 March	**21,652**	**21,651**

23. UNUSABLE RESERVES (FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT) continued

Southwark council entered into a Department for Education (DfE) Safety Value agreement in 2023 for the period 2022/23 to 2026/27. Additional DSG funding from government in 2023 and future financial years has been subject to compliance with the conditions in the DfE Safety Value agreement approved by Southwark council which is intended to eliminate the cumulative DSG deficit by 2026/27 at the latest. The Safety Valve agreement has been ended early by the DfE at the end of 2025/26 and will be replaced by the High Needs Sustainability Grant for 2026/27 subject to compliance with conditions.

The DSG deficit account is unchanged due to regulation, but we have a credit balance in the DSG (note 20) due to having received £14.7m in 'safety valve' government funding since 2022/23. This reduces the overall deficit to £4.7m, please see note 20.

Accumulating Absences Adjustment Account

The Accumulated Absences Account absorbs the timing differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March 2025. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2025/26	2024/25
	£000	£000
Balance at 1 April	**8,071**	**6,810**
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(969)	1,261
Balance at 31 March	**7,102**	**8,071**

Deferred Capital Receipts Reserve

	2025/26	2024/25
	£000	£000
Balance at 1 April	**(9,305)**	**(2,950)**
Disposal	(44)	(6,355)
Transfer to the Capital Receipts Reserve upon receipt of cash	477	-
Balance at 31 March	**(8,872)**	**(9,305)**

The Deferred Capital Receipts Reserve holds the receipt recognised on the disposal of non-current assets but of which cash settlement has yet to take place. When the cash settlement eventually takes place, amounts are transferred to Capital Receipts Reserve.

24. CASH FLOW FROM OPERATING ACTIVITIES

	2025/26	2024/25
	£000	£000
Adjustment to surplus or deficit on the provision of services for non cash movement:		
Depreciation and impairment of non-current assets	122,238	115,941
Upward/(downward) revaluations	281,983	229,294
Increase/(decrease) in impairment for credit losses (bad debts)	6,555	6,959
Increase/(decrease) in creditors	67,394	5,985
(Increase)/decrease in debtors	6,773	(4,433)
(Increase)/decrease in inventories	(51)	65
Movement in pension liability	(18,847)	(8,635)
Increase/(decrease) in provisions	2,599	4,807
Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	24,705	29,868
Other non-cash items charged to the net surplus or deficit on the provision of services	15,813	8,187
Total	**509,161**	**388,038**

	2025/26	2024/25
	£000	£000
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities:		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(68,172)	(51,635)
Capital grants included in Taxation and non-specific grant income	(59,840)	(131,509)
Total	**(128,012)**	**(183,144)**

The cash flows from operating activities include the following amounts:

	2025/26	2024/25
	£000	£000
Interest received	(10,720)	(5,759)
Interest paid	59,836	54,994
Net interest	**49,116**	**49,235**

25. CASH FLOW FROM INVESTING ACTIVITIES

	2025/26	2024/25
	£000	£000
Purchase of PP&E, Investment Property and Intangible Assets	(340,707)	(325,667)
Purchase of short-term and long-term investments	(25,051)	-
Proceeds from the sale of Property, Plant and equipment, investment property and intangible assets	68,172	51,635
Proceeds from sale of short-term investments (not considered to be cash equivalents)	-	28,306
Capital grants and contributions received	88,384	92,997
Net cash flows from Investing Activities	**(209,202)**	**(152,729)**

26. CASH FLOW FROM FINANCING ACTIVITIES

	2025/26	2024/25
	£000	£000
Cash payments for the reduction of the outstanding liability relating to a finance lease and on-balance-sheet PFI contracts	(23,796)	(25,159)
Cash receipts of short and long-term borrowing	101,991	309,886
Repayments of short and long term borrowing	(52,743)	(237,538)
Net Cash flows from Financing Activities	**25,452**	**47,189**

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES (IAS-7)

	Long-term borrowings	Short-term borrowings	Lease liabilities	Total
	£000	£000	£000	£000
Opening balance as at 1 April 2024	**(966,894)**	**(129,544)**	**(71,326)**	**(1,167,764)**
Financing cash flows	(149,603)	77,255	25,159	(47,189)
Non-financing cash flows			(42,878)	(42,878)
Closing balance as at 31 March 2025	**(1,116,497)**	**(52,289)**	**(89,045)**	**(1,257,831)**
Opening balance as at 1 April 2025	**(1,116,497)**	**(52,289)**	**(89,045)**	**(1,257,831)**
Financing cash flows:				
Repayment	42,743	10,000	44,192	96,935
Proceeds	(91,991)	(10,000)		(101,991)
Subtotal	**(49,248)**	**-**	**44,192**	**(5,056)**
Non-financing cash flows:				
Acquisition			(45,705)	(45,705)
Fair value				-
Reclassification	3,874	(4,676)		(802)
Subtotal	**3,874**	**(4,676)**	**(45,705)**	**(46,507)**
Closing balance as at 31 March 2026	**(1,161,897)**	**(56,965)**	**(90,558)**	**(1,309,394)**

28. EXTERNAL AUDIT COST

	2025/26	2024/25
	£000	£000
Fees payable for external audit services carried out by the appointed auditor for the year (PSAA scale fee)	608	591
Additional fees payable for external audit services carried out by the appointed auditor (per ISA 260 report, subject to PSAA approval)	59	-
Total external audit fees	**667**	**591**
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	56	38
Fees payable in respect of other non-audit services not covered above	-	-
Total non-audit fees	**56**	**38**
Total fees payable to external auditor	**723**	**629**

29. MEMBERS' ALLOWANCES

The amount of members' allowances and expenses paid in 2025/26 was £1,760,860.24 (£1,623,230.36 in 2024/25).

30. OFFICERS' REMUNERATION

In accordance with regulation, it is necessary to report on the remuneration of senior employees. Senior employees are defined as those who are members of the Chief Officer Team or whose remuneration is £150,000 or more per year (annualised if part-time).

The following table sets out this information for both 2025/26 and 2024/25:

	2025/26			2024/25				
Post-holder	Remuneration	Compensation for Loss of Office	Council's contributions to the Pension Fund	Salary	Electoral Duties	Total Remuneration	Compensation for Loss of Office	Council's contributions to the Pension Fund
	£	£	£	£	£	£	£	£
Chief Executive - A Loderick	243,331	-	49,883	235,975	14,249	250,224	-	48,375
Strategic Director of Children and Adults' Services - D Quirke-Thornton	214,719	-	44,017	208,239	-	208,239	-	42,689
Strategic Director of Resources - C Palfreyman	214,719	-	44,017	208,239	6,422	214,661	-	42,689
Strategic Director of Environment, Sustainability and Leisure - A Richards*	188,706	-	38,685	-	-	-	-	-
Strategic Director of Housing - H Osinaike	207,864	-	42,612	195,183	-	195,183	-	40,013
Strategic Director of Integrated Health & Care - D Summers**	111,021	-	22,759	90,833	-	90,833	-	18,621
Asst Chief Exec, Governance & Assurance - D Forrester-Brown	176,258	-	36,133	165,542	6,422	171,964	-	33,936
Asst Chief Exec, Strategy & Communities - R Cadenhead***	171,944	-	35,249	37,962	-	37,962	-	7,782
Director of Customer & Exchequer Services - D Cain****	153,836	-	31,536	-	-	-	-	-
Director of Leisure - T Ainge	153,836	-	31,536	163,979	-	163,979	-	33,616
Director of Corporate Finance - T Jones****	153,836	-	31,536	-	-	-	-	-
Director of Children and Families - A Smith	174,214	-	35,714	169,630	-	169,630	-	34,774
Director of Stronger Neighbourhoods - S Douglass****	153,836	-	31,536	-	-	-	-	-
Director of Public Health - S Leahy****	153,836	-	31,536	-	-	-	-	-
Director Adult Social Care - P O'Hare****	154,425	-	31,657	-	-	-	-	-
Managing Director of Southwark Construction - S Davis	168,191	-	34,479	187,074	-	187,074	-	38,350
Director of Planning, Growth & Assurance - S Platts****	153,836	-	31,536	-	-	-	-	-

Remuneration represents the actual payments made to post-holders during the financial year, together with the employer contributions in respect of the Local Government Pension Scheme (LGPS).

Senior officers who worked part-time or part of the year have been included based on annualised pay.

Notes:

* The Strategic Director of Environment, Sustainability & Leisure, A Richards, joined during the 2025/26 financial year.

** The Strategic Director of Integrated Health Care, D. Summers, is jointly appointed with the South East London Integrated Care Board. As such, the remuneration disclosed reflects only Southwark Council's share of the total remuneration package.

*** The Assistant Chief Executive of Strategy & Communities, R Cadenhead joined the council in January 2025 hence the variance in remuneration between the current and previous financial year.

**** These officers are included in the disclosure for the first time, having met the reporting threshold during the current period.

30. OFFICERS' REMUNERATION (continued)

During 2025/26 the council employed staff whose taxable remuneration, including payment on termination of employment was £50,000 or more for the year. The numbers of these employees, excluding the senior officers in the table above, is shown below in bands of £5,000:

Number of employees 2024/25			Band (£)	Number of employees 2025/26		
Schools	Non schools	Total		Schools	Non schools	Total
136	483	619	50,000 - 54,999	128	573	701
174	395	569	55,000 - 59,999	98	359	457
115	121	236	60,000 - 64,999	181	278	459
61	67	128	65,000 - 69,999	41	81	122
43	101	144	70,000 - 74,999	44	71	115
36	27	63	75,000 - 79,999	23	79	102
13	16	29	80,000 - 84,999	18	23	41
24	29	53	85,000 - 89,999	22	36	58
16	13	29	90,000 - 94,999	18	8	26
12	12	24	95,000 - 99,999	16	8	24
4	7	11	100,000 – 104,999	9	6	15
4	20	24	105,000 - 109,999	2	16	18
3	6	9	110,000 - 114,999	2	16	18
5	5	10	115,000 – 119,999	4	2	6
2	-	2	120,000 – 124,999	4	4	8
-	-	-	125,000 – 129,999	1	4	5
-	-	-	130,000 – 134,999	-	-	-
1	1	2	135,000 – 139,999	-	-	-
-	4	4	140,000 – 144,999	-	1	1
2	5	7	145,000 – 149,999	2	3	5
-	-	-	150,000 – 154,999	1	7	8
-	-	-	155,000 – 159,999	-	-	-
-	-	-	160,000 – 164,999	-	-	-
651	**1,312**	**1,963**	**Total**	**614**	**1,575**	**2,189**

For the financial year 2025/26, the total number of non-school employees whose earnings exceeded £100,000 per annum (excluding payments on termination of employments) was 48 (for 2024/25 was 21).

31. TERMINATION BENEFITS

Exit package cost band	Number of exit packages		Number of exit packages		Total number of exit packages		Total cost of exit packages by band	
	Schools		Non-schools					
	2025/26	2024/25	2025/26	2024/25	2025/26	2024/25	2025/26	2024/25
	No. staff	No. staff	No. staff	No. staff	No. staff	No. staff	£000	£000
£0 - £20,000	33	34	8	9	**41**	**43**	584	372
£20,001 - £40,000	14	4	4	6	**18**	**10**	620	224
£40,001 - £60,000	3	3	1	4	**4**	**7**	162	328
£60,001 - £80,000	2	-	1	4	**3**	**4**	143	282
£80,001 - £100,000	-	-	1	3	**1**	**3**	82	251
£100,001 - £150,000	-	-	1	4	**1**	**4**	104	481
£150,001 - £200,000	-	-	1	2	**1**	**2**	169	347
£200,001 - £300,000	-	-	-	-	**-**	**-**	-	-
Total	**52**	**41**	**17**	**32**	**69**	**73**	**1,864**	**2,285**

31. TERMINATION BENEFITS (continued)

Five compulsory redundancies were made by schools in 2025/26 totalling £16,081 with 5 in the £0 to £20,000 band (2024/25 eight compulsory redundancies totalling £30,108).

Note that in some cases bands have been amalgamated in order to ensure that individual exit packages cannot be recognised by comparing number of packages to the total cost of packages in a band.

32. RELATED PARTY TRANSACTIONS

The authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the authority.

Government Organisations and Other Public Bodies

Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding. Grants received from government departments during the year and receipts outstanding at 31 March 2026 are set out in note 21 to the accounts.

Members and chief officers

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2025/26 is shown in note 29. Information regarding reportable transactions has been collated by requiring all members and chief officers to declare any related party transactions. A review of the register of members' interests has been conducted, including the register of declarations at committee meetings.

Related party interests for which transactions exist for financial outflows in 2025/26 were declared by 16 councillors with no submission from chief officers (15 and 0 respectively in 2024/25). Related party interests for which transactions exist for financial inflows in 2025/26 were declared by 12 councillors with no submission from chief officers (7 and 0 respectively in 2024/25).

	2025/26		2024/25	
	£000	£000	£000	£000
	Transactions	Balance	Transactions	Balance
Financial outflows (vendors)				
Businesses or other organisations	4,376	-	3,568	-
Voluntary or Charitable organisations	11,848	(6)	448	(25)
Total	**16,224**	**(6)**	**4,016**	**(25)**
Financial inflows (customers)				
Businesses or other organisations	(517)	(2)	(394)	1
Voluntary or Charitable organisations	(111)	(3)	(154)	(11)
Total	**(628)**	**(5)**	**(548)**	**(10)**

In addition to the above, many members have relationships or hold positions with other public bodies and voluntary organisations, e.g. schools, with which the council does not have a financially material relationship, but with which the council has a non-financial or influential relationship.

Pensions

The council is the administering authority of the Pension Fund. The council charged the fund £1.0 million (£1.0 million in 2024/25) for expenses incurred in administering the Pension Fund which is included within the Statement of Accounts.

33. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and private finance initiatives (PFI) / public private partnership (PPP) contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

	2025/26	2024/25
	£000	£000
Opening Capital Financing Requirement	**1,850,777**	**1,742,603**
Capital Investment		
Property, Plant & Equipment (including assets held for sale)	335,661	322,537
Revenue expenditure funded from capital under statute (REFCUS)	15,094	20,277
Long-term debtors	1,633	2,233
Investment property	5,046	3,130
Total capital investment	**357,434**	**348,177**
Sources of capital finance		
Capital receipts	(42,480)	(51,729)
Government grants and other contributions	(59,879)	(55,245)
Direct revenue contributions	(43,447)	(46,300)
Major Repairs Reserve	(49,054)	(46,444)
Minimum revenue provision (MRP) / loans fund principal	(51,688)	(40,285)
Total capital investment financed	**(246,548)**	**(240,003)**
Closing Capital Financing Requirement	**1,961,663**	**1,850,777**
Explanation of movement		
Increase in underlying need to borrow	65,167	67,490
Assets acquired under lease agreements	42,351	38,306
Assets acquired under private finance initiative (PFI) contracts	3,368	2,378
Net movement in year	**110,886**	**108,174**

34. LEASES

Leases which effectively transfer the majority of risks and rewards associated with ownership of a non-current asset to the authority are accounted for as though the asset has been purchased. Assets obtained through these finance leases are recorded under non-current assets at the lower of either their fair value or the present value of the minimum lease payments. The capital portion of the lease is recognised as a liability under finance lease obligations or creditors.

Lease payments are split into capital and interest components. The capital element reduces the outstanding lease liability, while the interest element is expensed to revenue on a straight-line basis over the lease term.

From 1 April 2024, the Council implemented IFRS 16. Accordingly, from the 2024/25 financial year onwards, all adjustments reflect the recognition of right-of-use assets and associated lease liabilities for leases previously classified as operating leases. These assets are recognised as property, plant, and equipment on the Balance Sheet and are depreciated over the shorter of their useful life or the lease term.

34. LEASES (continued)

	2025/26				2024/25
Right of Use Assets	**Land**	**Buildings**	**Vehicles**	**Total**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Opening balance at 1 April*	1,072	37,233		38,305	-
Adjustments for right of use assets (GBV)					38,305
Additions		42,256	95	42,351	
Revaluation increases/(decreases)		2,147		2,147	
Derecognition		(35,068)		(35,068)	
Depreciation	(137)	(21,058)	(2)	(21,197)	(17,769)
Closing balance at 31 March	**935**	**25,510**	**93**	**26,538**	**20,536**

	2025/26			2024/25
Lease Liabilities	**Long term**	**Short term**	**Total**	**Total**
	£000	**£000**	**£000**	**£000**
Opening balance at 1 April*	(2,880)	(18,172)	(21,052)	-
Adjustments for right of use assets			-	(38,306)
Additions	(42,351)		(42,351)	-
Derecognition	20,396		20,396	-
Interest	(2,389)		(2,389)	(2,039)
Payments		18,172	18,172	19,293
Transfers	21,361	(21,361)	-	-
Closing balance at 31 March	**(5,863)**	**(21,361)**	**(27,224)**	**(21,052)**

The council as Lessor – operating leases

The council has industrial and commercial units which it lets out. It also lets out workshops and property for shops, community and commercial use.

The future minimum rentals receivable under these leases are set out below:

	31/03/2026	31/03/2025
Period due	**£000**	**£000**
Within 1 year	20,907	16,021
Within 2 to 5 years	56,402	49,238
After 5 years	107,586	55,870
Total due	**184,895**	**121,129**

35. PRIVATE FINANCE INITATIVES AND SIMILAR CONTRACTS

Private Finance Initiatives (PFI) and similar contracts typically involve a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time, in return for a series of payments over the period of the arrangement.

35. PRIVATE FINANCE INITATIVES AND SIMILAR CONTRACTS (continued)

A contract is determined to meet the definition of a service concession arrangement where the following two tests are met:

- the council controls or regulates what services the operator must provide with the property, to whom it must provide them, and at what price
- the council controls any significant residual interest in the property at the end of the term of the arrangement (typically through ownership or beneficial entitlement)

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the interest payable and similar charges in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- lifecycle replacement costs – debited to the relevant service in the Comprehensive Income and Expenditure Statement

The following schemes have been accounted for as PFI or similar contracts:

- St Michael's is a new secondary (academy) school which became operational in January 2011. The school was built and is operated over a 25 year contract by 4 Futures Ltd, the majority shareholder of which is Amber Infrastructure Limited.
- St Thomas is a new secondary (voluntary aided) school, which became operational in February 2012. The school was built and is operated over a 25 year contract by 4 Futures Ltd.
- Sacred Heart Catholic School is a new secondary (academy) school, which became operational in September 2014. The school was built and is operated over a 25 year contract by 4 Futures Ltd.
- In February 2008 the council entered into a 25-year PFI contract with Veolia Environmental Services for the collection and disposal of waste in the borough. Veolia are to provide high specification facilities to receive transfer and treat waste under the PFI contract from a facility on Old Kent Road, a site the council has leased to the company since September 2008. The integrated waste management facility on Old Kent Road became operational in February 2012. The £682 million contract has enabled the council to deliver government targets for waste minimisation, landfill diversion and recycling.
- In July 2013 the council entered into the Heat Supply PFI Arrangement with Veolia, which involved the contractor putting in place piping and associated facilities to deliver heating to council residents and related services in order to fulfil the council's mandate of delivering services to the public. The heat supply arrangement became operational in November 2013.

Even though the council has the obligation to make payments under PFI arrangements to 4 Futures Ltd for operating the three above schools and reimbursement of the capital expense incurred, the council does not have an interest in the assets.

35. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS (continued)

The movements in liabilities resulting from PFI (or similar) contracts were as follows:

	St Michael' s Catholic College	St Thomas the Apostle College	Sacred Heart Catholic School	Integrated Waste Management Facility	Heating Supply Arrangement	Total
	£000	£000	£000	£000	£000	£000
Opening balance as at 1 April 2024	**(11,966)**	**(15,474)**	**(15,005)**	**(25,331)**	**(3,550)**	**(71,326)**
New liability incurred	(238)	(1,055)	(901)	(2,252)	(126)	**(4,572)**
Repayments made in year	506	825	767	5,427	380	**7,905**
Closing balance as at 31 March 2025	**(11,698)**	**(15,704)**	**(15,139)**	**(22,156)**	**(3,296)**	**(67,993)**
Opening balance as at 1 April 2025	**(11,698)**	**(15,704)**	**(15,139)**	**(22,156)**	**(3,296)**	**(67,993)**
New liability incurred	32	(12)	(6)	(3,237)	(131)	**(3,354)**
Repayments made in year	154	539	612	6,306	402	**8,013**
Closing balance as at 31 March 2026	**(11,512)**	**(15,177)**	**(14,533)**	**(19,087)**	**(3,025)**	**(63,334)**

The following has been recognised in the Balance Sheet in respect of PFI (or similar) arrangements:

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Total
	£000	£000	£000	£000
Net Book Value at 1 April 2024	**57,494**	**17,289**	**4,033**	**78,816**
Additions	-	2,252	126	**2,378**
Depreciation & Impairment	(1,487)	(1,182)	(212)	**(2,881)**
Revaluation				**-**
Net Book Value at 31 March 2025	**56,007**	**18,359**	**3,947**	**78,313**
Net Book Value at 1 April 2025	56,007	18,359	3,947	**78,313**
Additions		3,237	131	**3,368**
Depreciation & Impairment		(1,319)	(345)	**(1,664)**
Revaluations	(2,851)			**(2,851)**
Other Adjustments	13,980	87	2,132	**16,199**
Net Book Value at 31 March 2026	**67,136**	**20,364**	**5,865**	**93,365**

35. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS (continued)

The projected payments under the agreements are as follows:

	1 year	2-5 years	6-10 years	11-15 years	16-20 years	Total
	£000	£000	£000	£000	£000	£000
St Michael's Catholic College						
Liability	(483)	(4,134)	(6,896)	1	-	**(11,512)**
Interest	(1,439)	(4,669)	(2,561)	-	-	**(8,669)**
Service Charges	(1,025)	(3,770)	(5,796)	-	-	**(10,591)**
St Thomas the Apostle College						
Liability	(958)	(4,350)	(9,030)	(839)		**(15,177)**
Interest	(1,608)	(5,415)	(3,306)	(53)		**(10,382)**
Service Charges	(319)	(1,383)	(2,018)	300		**(3,420)**
Lifecycle Payments	8	(945)	(1,362)	47		**(2,252)**
Sacred Heart Catholic School						
Liability	(551)	(4,149)	(7,252)	(2,581)		**(14,533)**
Interest	(1,482)	(5,098)	(3,506)	(184)		**(10,270)**
Service Charges	(558)	(2,403)	(3,450)	(1,314)		**(7,725)**
Lifecycle Payments	(286)	(441)	(1,508)	(449)		**(2,684)**
Integrated Waste Management Facility						
Liability	(2,976)	(10,779)	(5,332)	-		**(19,087)**
Interest	(1,171)	(3,170)	(781)	-		**(5,122)**
Service Charges	(27,897)	(125,406)	(64,041)	-		**(217,344)**
Lifecycle Payments	(3,620)	(13,881)	(7,076)	-		**(24,577)**
Heat Supply Arrangement						
Liability	(302)	(1,606)	(1,117)			**(3,025)**
Interest	(377)	(1,106)	(240)			**(1,723)**
Service Charges	(2,121)	(9,201)	(5,056)			**(16,378)**
Lifecycle Payments	(134)	(570)	(307)			**(1,011)**

35. OTHER LONG-TERM LIABILITIES

	31 March 2026	31 March 2025
	£000	£000
Payments due under PFI schemes and similar arrangements:		
St Michaels Catholic college	(11,030)	(11,504)
St Thomas the Apostle College	(14,216)	(15,135)
Sacred Heart Catholic school	(13,981)	(14,498)
Integrated waste Management Facility	(16,111)	(19,088)
Heat Supply Arrangement	(2,724)	(3,026)
Payments due under finance lease liabilities IFRS16:		
Finance lease liability	(5,863)	(2,880)
Total	**(63,925)**	**(66,131)**

37. PENSION SCHEMES ACCOUNTED FOR AS A DEFINED CONTRIBUTION SCHEMES (NHS AND TEACHERS)

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Education and Skills Funding Agency. The scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. Additionally, as part of its public health responsibilities the council employs staff who are members of the NHS Pension Scheme.

The schemes are technically defined benefit schemes. However, both schemes are unfunded and use notional funds as the basis for calculating the employers' contribution rate paid by local authorities. The council is not able to identify its share of underlying financial position and performance of the schemes with sufficient reliability for accounting purposes. For the purposes of the council's statement of accounts, they are therefore accounted for on the same basis as a defined contribution scheme.

In 2025/26 the council paid £15.3m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 28.7% of pensionable pay (£15.4m and 28.7% respectively in 2024/25).

The council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 38.

38. DEFINED BENEFIT PENSIONS SCHEMES

Participation in the Local Authority Pensions Scheme

As part of the terms and conditions of employment of its officers and other employees, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The council participates in two pension fund schemes, the London Borough of Southwark Pension Fund (council) and the London Pension Fund Authority Pension Fund (LPFA). Both are funded schemes, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension fund's liabilities with investment assets.

Transactions relating to post-employment benefits

The council recognises the cost of retirement benefits in the Comprehensive Income and Expenditure Statement (CIES) when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the CIES and the General Fund balance via the Movement in Reserves Statement during the year:

38. DEFINED BENEFIT PENSIONS SCHEMES (continued)

	2025/26			2024/25		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement						
Cost of services:						
- Current service cost	31,200	(906)	**30,294**	39,300	105	**39,405**
- Past service costs	5,000	-	**5,000**	2,100	-	**2,100**
Financing and investment income and expenditure:						
- Net interest expense/(income)	(1,500)	(399)	**(1,899)**	(1,200)	(3)	**(1,203)**
Total post employment benefit charged to the surplus or deficit on the provision of services	**34,700**	**(1,305)**	**33,395**	**40,200**	**102**	**40,302**
Other comprehensive income and expenditure:						
Remeasurement of the net defined benefit liability comprising						
- IAS19 report balance adjustment			**-**			**-**
- Return on plan assets (excluding amount included in the net interest expense)	2,900	1,428	**4,328**	71,300	1,191	**72,491**
- Actuarial gains and losses arising on changes in demographic assumptions	56,500	559	**57,059**	(13,200)	(95)	**(13,295)**
- Actuarial gains and losses arising on changes in financial assumptions	(19,700)	(349)	**(20,049)**	(291,500)	(2,891)	**(294,391)**
- Actuarial gains and losses arising on changes in liability experience	117,300	2,578	**119,878**	3,200	(106)	**3,094**
- Other actuarial gains and losses on assets	(139,500)	(2,934)	**(142,434)**	238,900	1,850	**240,750**
Total remeasurements in other comprehensive income and expenditure	**17,500**	**1,282**	**18,782**	**8,700**	**(51)**	**8,649**
Total post employment benefit charged to the comprehensive income and expenditure statement	**52,200**	**(23)**	**52,177**	**48,900**	**51**	**48,951**

	2025/26			2024/25		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Movement in reserves statement						
- Reversal of net charges made to the surplus or deficit for the provision of services for post employment benefits in accordance with the Code	(34,700)	1,305	**(33,395)**	(40,200)	(102)	**(40,302)**
Actual amount charged against the General Fund Balance for pensions in the year:						
- Employers' contributions payable to the scheme	52,200	42	**52,242**	48,900	37	**48,937**
Net adjustment between accounting basis and funding basis under regulations	**17,500**	**1,347**	**18,847**	**8,700**	**(65)**	**8,635**

38. DEFINED BENEFIT PENSIONS SCHEMES (continued)

Pensions assets and liabilities recognised in the balance sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

	2025/26			2024/25		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Fair value of plan assets	2,293,800	73,523	**2,367,323**	2,193,500	68,988	**2,262,488**
Less Present value of defined benefit obligation	(1,794,900)	(40,683)	**(1,835,583)**	(1,590,100)	(34,250)	**(1,624,350)**
Net surplus/(liability) arising from defined benefit obligation pre asset-ceiling	**498,900**	**32,840**	**531,740**	**603,400**	**34,738**	**638,138**
Less asset ceiling under IFRIC 14 assessment	(498,900)	(32,727)	**(531,627)**	(603,400)	(34,690)	**(638,090)**
Net (liability) arising from defined benefit obligation post asset-ceiling	**-**	**113**	**113**	**-**	**48**	**48**

* Reconciliation of Asset Ceiling	2025/26			2024/25		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Effect of the Asset Ceiling - start of period	(603,400)	(34,690)	**(638,090)**	(347,800)	(31,321)	**(379,121)**
Net Interest charged to the surplus or deficit on the provision of services	(35,000)	(1,960)	**(36,960)**	(16,700)	(1,519)	**(18,219)**
Remeasurement of losses charged to Other Comprehensive Income and Expenditure	139,500	3,923	**143,423**	(238,900)	(1,850)	**(240,750)**
Effect of the Asset Ceiling - end of period	**(498,900)**	**(32,727)**	**(531,627)**	**(603,400)**	**(34,690)**	**(638,090)**

* Asset Ceiling Restriction (LPFA)

The Council participates in the Local Government Pension Scheme (LGPS) administered by the London Pensions Fund Authority (LPFA). Under IAS 19, the net defined benefit position is calculated as the difference between the fair value of scheme assets and the present value of scheme liabilities. However, IFRIC 14 requires that any surplus is restricted to the "asset ceiling," which is the present value of economic benefits available to the Council in the form of refunds from the plan or reductions in future contributions. Although, the net surplus is £32.840 million, following IFRIC 14, the surplus has been restricted to £113k, being the maximum economic benefit available to the Council.

Reconciliation of movement in the fair value of the scheme assets:

	2025/26			2024/25		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Opening balance at 1 April	2,193,500	68,988	**2,262,488**	2,176,000	70,344	**2,246,344**
IAS19 report balance adjustment			**-**			**-**
Interest income on assets	126,700	4,309	**131,009**	104,200	3,328	**107,528**
Remeasurement gains/(losses) on assets	(2,900)	(1,428)	**(4,328)**	(71,300)	(1,191)	**(72,491)**
Other actuarial gains/(losses)	-	(989)	**(989)**	-	-	**-**
Administration expenses	-	(64)	**(64)**	-	(21)	**(21)**
Employer contributions	52,200	42	**52,242**	48,900	37	**48,937**
Contribution by participants	18,000	23	**18,023**	16,500	24	**16,524**
Contribution by admitted bodies	800	-	**800**	800	-	**800**
Net benefits paid out	(94,500)	(3,181)	**(97,681)**	(81,600)	(3,533)	**(85,133)**
		5,823	**5,823**			
Closing balance at 31 March	**2,293,800**	**73,523**	**2,367,323**	**2,193,500**	**68,988**	**2,262,488**

38. DEFINED BENEFIT PENSIONS SCHEMES (continued)

Reconciliation of movement in the present value of defined benefit obligation (liabilities):

	2025/26			2024/25		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Opening balance at 1 April	(1,590,100)	(34,250)	**(1,624,350)**	(1,828,200)	(38,961)	**(1,867,161)**
Current service cost	(31,200)	(79)	**(31,279)**	(39,300)	(84)	**(39,384)**
Interest cost	(90,200)	(1,950)	**(92,150)**	(86,300)	(1,806)	**(88,106)**
Contribution by admitted bodies	(800)		**(800)**	(800)		**(800)**
Contributions by scheme participants	(18,000)	(23)	**(18,023)**	(16,500)	(24)	**(16,524)**
Change in financial assumptions	19,700	349	**20,049**	291,500	2,891	**294,391**
Change in demographic assumptions	(56,500)	(559)	**(57,059)**	13,200	95	**13,295**
Experience loss/(gain) on defined benefit obligation	(117,300)	(2,578)	**(119,878)**	(3,200)	106	**(3,094)**
Benefits paid	94,500	3,181	**97,681**	81,600	3,533	**85,133**
Past service costs	(5,000)		**(5,000)**	(2,100)	-	**(2,100)**
Settlements		(4,774)	**(4,774)**			
Closing balance at 31 March	**(1,794,900)**	**(40,683)**	**(1,835,583)**	**(1,590,100)**	**(34,250)**	**(1,624,350)**

Scheme assets comprised:

	2025/26			2024/25		
	Council	LPFA	Total	Council	LPFA	Total
	£000	£000	£000	£000	£000	£000
Quoted						
- Equities	1,220,302	39,332	**1,259,634**	1,186,684	40,689	**1,227,373**
- Government bonds	217,911	-	**217,911**	153,545	-	**153,545**
- Corporate bonds	-	-	**-**	-	-	**-**
- Target return portfolio	213,323	15,493	**228,816**	203,995	12,529	**216,524**
- Other	6,881	-	**6,881**	-	-	**-**
Subtotal	**1,658,417**	**54,825**	**1,713,242**	**1,544,224**	**53,218**	**1,597,442**
Unquoted						
- Equities	52,757	-	**52,757**	54,837	-	**54,837**
- Infrastructure	-	8,638	**8,638**	-	7,869	**7,869**
- Property	337,189	7,580	**344,769**	326,831	6,288	**333,119**
- Cash	25,232	2,480	**27,712**	24,129	1,613	**25,742**
- Other	220,205	-	**220,205**	243,479	-	**243,479**
Subtotal	**635,383**	**18,698**	**654,081**	**649,276**	**15,770**	**665,046**
Total	**2,293,800**	**73,523**	**2,367,323**	**2,193,500**	**68,988**	**2,262,488**

Basis for estimating assets and liabilities

The scheme assets, as shown above, are those attributable to the council from its membership of the Local Government Pension Scheme (LGPS) for both the London borough of Southwark Pension Fund (Council) and the London Pension Fund Authority (LPFA).

The value of the assets is provided by fund actuaries. The LGPS valuation is based on asset values at 31 March 2026. The LPFA actuary uses market values at 31 January 2026, then indexed for market movements to arrive at a valuation for 31 March 2026.

38. DEFINED BENEFIT PENSIONS SCHEMES (continued)

Liabilities for the council and LPFA schemes have been assessed by Aon Hewitt and Barnett Waddingham respectively. Both have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. The estimates are based on data relating to the latest full valuations as at 31 March 2025 and rolled forward.

As at 31 March 2025, there are 12 employers participating in the London Borough of Southwark Pension Fund (LBSPF) through a passthrough contract with London Borough of Southwark (LBS) where the employers' obligation is to pay a fixed contribution rate (% of pay) to the Fund. The administering authority manages the funding of the liabilities of the passthrough admission bodies by pooling them with the LBS, who in turn is exposed to all pensions risk on the transferred staff, with the exception of a fixed contribution rate payable by the passthrough admission body employers. The accounting policy adopted by LBS has been to report the assets, DBO, and current service costs of the transferred staff (net of the fixed rate contributions payable by the admission bodies) under IAS 19.

Principal assumptions used by the actuaries

	2025/26		2024/25	
	Council	LPFA	Council	LPFA
Mortality assumptions				
Longevity at 65 for current pensioners				
- Men (years)	22.4	21.0	20.9	19.9
- Women (years)	24.8	24.1	23.7	23.2
Longevity at 45 for future pensioners				
- Men (years)	22.8	21.7	21.8	21.4
- Women (years)	25.5	25.6	24.8	25.0
Principal financial assumptions				
- Rate of inflation CPI	2.80%	2.9%	2.5%	2.9%
- Rate of increase in salaries	4.30%	3.9%	4.0%	3.9%
- Rate of increase in pensions	2.80%	2.9%	2.5%	2.9%
- Rate of pension revaluation	2.80%	0.0%	2.5%	0.0%
- Rate for discounting scheme liabilities	6.20%	5.9%	5.8%	5.7%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table below. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant.

Sensitivity Analysis	**Increase in Defined Benefit Obligation**			**Decrease in Defined Benefit Obligation**		
	Council	**LPFA**	**Total**	**Council**	**LPFA**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Present value of total obligation						
Longevity (+/- 1 Year Age Rating)	1,755,400	43,069	**1,798,469**	1,834,400	38,441	**1,872,841**
Rate of increase in salaries (+/- 0.1%)	1,796,700	40,687	**1,837,387**	1,793,100	40,679	**1,833,779**
Rate of increase in pensions (+/- 0.1%)	1,818,200	41,056	**1,859,256**	1,773,400	40,374	**1,813,774**
Rate for discounting scheme liabilities (+/- 0.1%)	1,771,600	40,332	**1,811,932**	1,820,000	41,040	**1,861,040**
Projected service cost						
Longevity (+/- 1 Year)	32,100	83	**32,183**	34,500	78	**34,578**
Rate of increase in salaries (+/- 0.1%)	33,300	80	**33,380**	33,300	80	**33,380**
Rate of increase in pensions (+/- 0.1%)	34,900	82	**34,982**	31,800	79	**31,879**
Rate for discounting scheme liabilities (+/- 0.1%)	31,800	79	**31,879**	34,900	81	**34,981**

38. DEFINED BENEFIT PENSIONS SCHEMES (continued)

Impact on the council's cash flows

The objective of the schemes are to achieve a funding level of 100%, with funding levels monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2026. The liabilities show the underlying commitments that the council has in the long run to pay post employment (retirement) benefits. The total obligation of £1,836m (£1,624m at 31 March 2025) has a substantial impact on the net worth of the council as recorded in the Balance Sheet, resulting in a net asset of £113k (asset of £48k at 31 March 2025). The surplus recognised in the balance sheet was restricted by £498.9m (2024/25 £603.4m) on the council's scheme and by £32.7m (2024/25 £34.7m) on LPFA scheme, under paragraph 64 of IAS19 / IFRIC 14 assessment.

As members of the Local Government Pension Scheme, both the council and LPFA schemes have taken account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the act, the Local Government's Pension Scheme may not provide final salary scheme benefits in relation to service after 31 March 2014. The act provides for scheme regulations to be made within common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants. The anticipated service cost in 2025/26 is £33.3m for the council scheme and £0.08m for the LPFA scheme. The weighted average duration of the defined benefit obligation for the council scheme members is 13.5 years (13.7 years 2024/25) and 9 years for LPFA scheme members (10 years 2024/25).

39. FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes (business rates and council tax) and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the council and can be represented by a contractual obligation to deliver cash or financial assets. The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		Short Term		Total	
	31 March 2026	31 March 2025	31 March 2026	31 March 2025	31 March 2026	31 March 2025
	£000	£000	£000	£000	£000	£000
Financial Liabilities at Amortised Cost						
Borrowing	(1,161,871)	(1,116,497)	(56,965)	(52,289)	(1,218,836)	(1,168,786)
Bank overdraft at amortised cost			(3,832)	(4,482)	(3,832)	(4,482)
PFI and Right of Use asset liabilities	(63,925)	(66,131)	(26,631)	(22,915)	(90,556)	(89,046)
Creditors	(4,133)	(416)	(136,885)	(122,743)	(141,018)	(123,159)
Total Financial Liabilities	**(1,229,929)**	**(1,183,044)**	**(224,313)**	**(202,429)**	**(1,454,242)**	**(1,385,473)**
Non-Financial Liabilities			(117,511)	(93,580)	(117,511)	(93,580)
Total	**(1,229,929)**	**(1,183,044)**	**(341,824)**	**(296,009)**	**(1,571,753)**	**(1,479,053)**

39. FINANCIAL INSTRUMENTS (continued)

Financial Assets

A financial asset is a right to future economic benefits controlled by the council that is represented by cash or other instruments. The financial assets disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		Short Term		Total	
	31 March 2026	31 March 2025	31 March 2026	31 March 2025	31 March 2026	31 March 2025
	£000	£000	£000	£000	£000	£000
Fair value through other comprehensive income						
Investments	200	200	-	-	200	200
At amortised cost						
Investments			25,052		25,052	
Cash and Cash Equivalents	-	-	74,276	55,339	74,276	55,339
Debtors*	31,539	33,172	74,372	70,958	105,911	104,130
Total Financial Assets	**31,739**	**33,372**	**173,700**	**126,297**	**205,439**	**159,669**
Non-Financial Assets	**-**	-	80,329	95,438	80,329	95,438
Total	**31,739**	**33,372**	**254,029**	**221,735**	**285,768**	**255,107**

*Included in long term debtors are amounts classed as soft loans. These are loans issued by the council at lower than market rate. The opening balance of long term debtors include soft loans issued to Mountview Academy of Theatre Arts and the Central School of Ballet and The Old Vic.

Financial Instruments – Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consists of the following items:

	2025/26					2024/25				
	Financial Liabilities at amortised cost	Financial Assets at amortised cost	Financial Assets at fair value through other comprehensive income	Financial Assets at fair value through profit or loss	Total	Financial Liabilities at amortised cost	Financial Assets at amortised cost	Financial Assets at fair value through other comprehensive income	Financial Assets at fair value through profit or loss	Total
	£000		£000	£000	£000	£000	£000		£000	£000
Interest expense	59,742				**59,742**	54,868				**54,868**
Other charges	94				**94**	126				**126**
Total expenses in surplus or deficit on the provision of services	**59,836**		**-**	-	**59,836**	**54,994**		**-**	-	**54,994**
Interest Income		(10,720)			**(10,720)**		(5,759)			**(5,759)**
Total income in surplus or deficit on the provision of services	**-**	**(10,720)**	**-**	-	**(10,720)**	**-**	**(5,759)**	**-**	-	**(5,759)**
Deficit arising on revaluation of financial assets in Other Comprehensive Income & Expenditure	-		-	-	**-**	-		(236)	-	**(236)**
Net (gain)/loss for the year	**59,836**	**(10,720)**	**-**	-	**49,116**	**54,994**	**(5,759)**	**(236)**	-	**48,999**

40.NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities.

In line with the Treasury Management Code, the council approves a treasury management strategy before the commencement of each financial year. The strategy sets out the parameters for the management of risks associated with financial instruments. The council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The treasury management strategy includes an annual investment strategy in compliance with the Ministry of Housing, Communities and Local Government (MHCLG) guidance on local government investments. The strategy emphasises that priority is given to security and liquidity, rather than yield. The council's treasury management strategy and its treasury management practices seek to achieve a suitable balance between risk and return.

Credit risk

Credit risk arises from deposits with banks and financial institutions (counterparty), as well as credit exposures to the Council's customers failing to meet its contractual obligations causing a loss to the council.

Credit risk – investments

The council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the treasury management strategy. These include commercial entities with a minimum long-term credit rating of A, the UK government, other local authorities, and organisations without credit ratings upon which the council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

The council is able to utilise the expertise of external advisors to seek to mitigate credit risk in the construction of a well diversified treasury portfolio. Limits are set on the amount of money that can be invested with a single counterparty (other than the UK government) and no more than 50% of total investments can be for a period longer than one year.

The maximum exposure to credit risk is represented by the sums held in investments. Treasury investments with a value of £73.1m held at 31 March 2026 were held in AAA money market funds with at call settlement of T+0 days. The £25.1m investments were short-term investments held with other local authorities. Given the high credit rating and short duration of the investments, the Council does not expect any losses from non-performance by any of its counterparties.

	£000				%			
	A	AA-	AAA	Total	A	AA-	AAA	Total
	£000	£000	£000	£000	%	%	%	%
Up to 1 year		25,052	73,100	**98,152**		25.5%	74.3%	99.8%
1 - 2 years				**-**				
2 - 5 years			200	**200**			0.2%	0.2%
Total investments		**25,052**	**73,300**	**98,352**	**0%**	**25%**	**75%**	**100%**

Credit risk - receivables

Trade receivables arise from the provision of goods and services and the carrying out of the council's functions. The credit quality of debtors is reflected in the level of the impairment allowance for trade debtors shown in note 17.

In the normal course of carrying out its operations, the council is exposed to the potential risk of default from individuals, firms and organisations that it deals with. Credit is assessed prior to being granted in commercial transactions, for example commercial rents. Debts arising are actively managed and collection targets are used to raise receipts. A charge may be placed on property for debt, but the bulk of the exposure is unsecured and subject to credit risk and notably concentrated within the council's geographical boundary.

40. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The council analyses its debts outstanding to determine the level of impairment allowance to provide for. For example reviewing the age profile of debt, collection rate, stages of the debt such as those summoned to court and other characteristics such as current and former tenants for social housing tenant, then applying an appropriate rate of provision for that type, age and characteristic of the debt.

	31 March 26	31 March 25
	£'000	£'000
0-3 Months	12,816	12,587
3-6 Months	2,473	2,240
6-12 Months	3,150	3,540
12-18 Months	1,758	2,147
Over 18 Months	12,735	11,842
Total	**32,932**	**32,356**

* This is for debt managed within our accounts receivable module and excludes other types of debt such as manual accruals, Housing Benefit, Council Tax and NNDR debt etc.

Liquidity risk

Liquidity risk represents the risk that the Council might not have the liquid assets available to meet its financial obligations as they fall due.

The council has access to its cash holdings which can be realised and long-term loan facilities from the Public Works Loans Board to fund maturing debt and capital financing requirements.

The council is exposed to the risk that refinancing of maturing debt may occur at times of unfavourable external borrowing rates. To mitigate this risk the council has a diversified debt maturity profile limiting the amount of debt required to be refinanced in the course of any one financial year.

The maturity analysis of principal sums borrowed is as follows:

	2025/26	2024/25
	£000	£000
Less than 1 year	(46,489)	(42,743)
Between 1 and 5 years	(177,327)	(167,900)
Between 5 and 10 years	(229,156)	(243,748)
Between 10 and 20 years	(125,721)	(105,143)
Over 20 years	(629,768)	(599,770)
Total	**(1,208,461)**	**(1,159,304)**

Market risk

Market risk represent exposure to changes in interest rates and asset prices. The council has exposure to interest rate movements in its borrowing and investments.

Outstanding long-term council debt at 31 March 2026 is primarily from the PWLB. The debt is at fixed rates, with an average maturity of 21.9 years (21.9 years at 31 March 2025). The maturity profile of the debt is shown in the table above. The council may draw further loans from the PWLB if needed. A 1% rise in discount rates at Balance Sheet date would lower the fair value by £130.7m. As the debt is held at amortised cost there would be no impact on the Comprehensive Income and Expenditure Statement from such a change, unless the debt was extinguished.

All treasury Investments are held in money market funds.

41. FAIR VALUE ASSETS AND LIABILITIES

Fair value – basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset or liability	Held on balance sheet as	Valuation hierarchy	Basis of Valuation	Observable and unobservable inputs
Market quoted investments (money market funds, equity funds, corporate, covered government bonds)	Fair value	1	Published bid market price ruling on the final day of the accounting period	Not required
Long term loans from PWLB / MEEF	Amortised cost	2	Discounting of contractual cash flows over the remaining life of the instrument at an appropriate market rate	The attributable market derived discount rate for each individual loan
Lease Payable and PFI Liabilities	Amortised cost	2	Projected discounted future Unitary contractual payments	Payments determined by contractual agreement, discounted at an appropriate market derived corporate bond yield.
Investment Property	Fair value	2	Valued at Fair Value at year end by Head of Property, taking into account the characteristics of the assets, nature of the relevant market for those assets and behaviours of those participating in these markets, assuming the highest and best use for the asset. The valuations employ a market approach technique.	Quoted rents, yields etc. for comparable assets transacted in active markets, subject to adjustment as necessary in valuer's judgement to equate the evidence with the subject of the valuation.
Assets held for sale	Fair value	2		
Surplus Assets	Fair value	2		

The fair value of certain financial assets and liabilities including debtors and creditors is assumed to be approximate to the carrying amount.

Financial and non-financial assets and liabilities measured at fair value are classified in accordance with three levels as shown below:

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the council can access at the measurement date

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly

Level 3 inputs – Fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

The following table provides an analysis of the financial liabilities grouped into the level at which fair value is observable:

41. FAIR VALUE ASSETS AND LIABILITIES continued

	Fair value level	31 March 2026		31 March 2025	
		Balance Sheet	Fair value	Balance Sheet	Fair value
		£000	£000	£000	£000
Financial liabilities held at amortised cost:					
Long term loans from PWLB	2	(1,210,629)	(995,647)	(1,116,497)	(957,477)
Other long-term loans	2	(8,207)	(8,831)	(7,537)	(5,581)
Private finance initiative liabilities	2	(63,334)	(63,334)	(67,993)	(67,993)
Subtotal		**(1,282,170)**	**(1,067,812)**	**(1,192,027)**	**(1,031,051)**
Liabilities for which fair value is not disclosed		(289,583)		(287,026)	
Total financial liabilities		**(1,571,753)**		**(1,479,053)**	
Recorded on balance sheet as:					
Short-term creditors		(254,396)		(216,323)	
Short-term borrowing		(56,965)		(52,289)	
Short-term PFI liabilities		(5,270)		(4,743)	
Short-term Lease (RoU) liabilities		(21,361)		(18,172)	
Bank overdraft		(3,832)		(4,482)	
Long-term creditors		(4,133)		(416)	
Long-term borrowing		(1,161,871)		(1,116,497)	
Other long-term liabilities		(63,925)		(66,131)	
Total financial liabilities		**(1,571,753)**		**(1,479,053)**	

The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to be approximate to the carrying amount.

The following table provides an analysis of the financial assets grouped into the level at which fair value is observable:

	Fair value level	31 March 2026		31 March 2025	
		Balance Sheet	Fair value	Balance Sheet	Fair value
		£000	£000	£000	£000
Financial assets held at fair value:					
Money market funds	1	74,276	74,276	55,339	55,339
Corporate, covered and government bonds	1	25,252	25,252	200	200
Subtotal		**99,528**	**99,528**	**55,539**	**55,539**
Assets for which fair value is not disclosed		186,240		199,570	
Total financial assets		**285,768**		**255,109**	
Recorded on balance sheet as:					
Short-term debtors		154,701		166,398	
Short-term investments		25,052		-	
Long-term debtors		31,539		33,172	
Long-term investments		200		200	
Cash and cash equivalents		74,276		55,339	
Total financial assets		**285,768**		**255,109**	

The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to be approximate to the carrying amount.

42. CONTINGENT LIABILITIES

- The Council owns and manages a significant portfolio of housing stock. As part of its ongoing compliance with building safety and fire safety requirements, the Council continues to undertake inspections, surveys and risk assessments across its properties. These activities may identify the need for additional remedial works to ensure compliance with current and emerging building safety standards. At the balance sheet date, there remains uncertainty regarding the extent, scope, timing and cost of any such works, particularly in relation to properties that have not yet been fully assessed or where appropriate remediation solutions are still being determined. The timing and amount of these transactions is uncertain and therefore a contingent liability is being disclosed.

- The Council has identified that the approach historically applied to setting rents for certain Temporary Accommodation properties did not fully align with the Rent Standard, particularly from 1 April 2020. A review is underway to assess the potential implications, including possible reassessment of Housing Benefit. In respect of former tenants and the Housing Benefit element, management has concluded that the outflow of resources is not considered probable. The estimated financial effect of this exposure is £33m.

43. CONTINGENT ASSETS

- The Council is party to a range of contractual arrangements with developers and other counterparties, including overage agreements, development agreements, and shared profit and equity arrangements. These arrangements entitle the Council to receive additional income where specified future events occur, typically linked to increases in value, unit numbers, profitability, or achievement of agreed development outcomes. The Council considers that there is a fair prospect of receiving additional income under these arrangements. Due to the inherent uncertainties associated with the underlying developments, it is not currently possible to make a reliable estimate or the timing of the potential income. Accordingly, these arrangements are disclosed as contingent assets, and no asset has been recognised in the financial statements.

SUPPLEMENTARY FINANCIAL STATEMENTS 2025/26

HOUSING REVENUE ACCOUNT

COLLECTION FUND ACCOUNTS

PENSION FUND ACCOUNTS

HOUSING REVENUE ACCOUNT 2025/26

HOUSING REVENUE ACCOUNT

INCOME AND EXPENDITURE STATEMENT

The Housing Revenue Account is a record of expenditure on, and income from, the provision of local authority housing, and the form and content of the account is prescribed by statute. The Housing Revenue Account is "ring-fenced" and must be self-supporting. Contributions both to and from the Housing Revenue Account (e.g. from the General Fund) are limited to special circumstances.

	Note	2025/26 £000	2024/25 £000
Income			
Dwelling Rents		(245,937)	(250,126)
Non-dwelling rents		(7,675)	(7,341)
Charges for services and facilities		(75,065)	(89,640)
Contributions towards expenditure		(3,735)	(2,203)
Total Income		**(332,412)**	**(349,310)**
Expenditure			
Repairs and maintenance		72,853	66,067
Supervision and management		116,593	139,143
Rents, rates, taxes and other charges		17,479	14,916
Depreciation, impairment and revaluation losses of non-current assets	4	318,536	227,678
Debt management costs		104	2,986
Increase in provisions for bad debts		4,700	3,598
Revenue expenditure funded from capital under statute	5	640	597
Total expenditure		**530,905**	**454,985**
Net cost of HRA Services included in the Comprehensive Income and Expenditure Statement		**198,493**	**105,675**
HRA share of Corporate and Democratic Core		1,106	1,106
Net Cost of HRA Services		**199,599**	**106,781**
Gains and losses on the sales of HRA non-current assets		(39,346)	(28,214)
Interest payable and similar charges		38,159	38,680
Interest and investment income		(5,232)	(4,835)
Income, expenditure and changes in the fair value of investment properties	15	(9,794)	(7,095)
Pensions interest cost and expected return on pensions assets		(393)	(296)
Capital grants and contributions receivable		(21,791)	(22,696)
Total (surplus)/deficit for the year		**161,202**	**82,325**

The accompanying notes form an integral part of the financial statement.

MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

This is a reconciliation statement summarising the differences between the outturn on the HRA Income and Expenditure Statement and the HRA Balance.

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources generated and used in the last twelve months. However, a number of items have to be included or removed from the HRA Income and Expenditure Statement to comply with the statutory requirements of accounting for the HRA.

	Note	2025/26	2024/25
		£000	£000
(Surplus)/deficit for the year on HRA services		161,202	82,325
Adjustments between accounting basis and funding basis under regulations	6	(165,128)	(86,262)
Transfers (to)/from earmarked reserves		(28)	28
(Increase)/decrease in the HRA Balance		**(165,156)**	**(3,909)**
HRA Balance brought forward		(20,830)	(16,921)
Balance carried forward	7	**(185,986)**	**(20,830)**

The accompanying notes form an integral part of financial statement.

NOTES TO THE HOUSING REVENUE ACCOUNT STATEMENTS

1. THE HOUSING REVENUE ACCOUNT

The Housing Revenue Account is a record of expenditure on, and income from, the provision of local authority housing, and the form and content of the Account is prescribed by statute. The Housing Revenue Account is "ring-fenced" and must be self-supporting. Contributions both to and from the Housing Revenue Account (e.g. from the General Fund) are limited to special circumstances.

2. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

Type of Dwelling		Number of bedrooms				Total	Total
		1	2	3+	Other	31 March 2026	31 March 2025
Houses and bungalows	**31 March 2026**	**363**	**725**	**2,900**	**-**	**3,988**	
	31 March 2025	366	723	2,896	-		**3,985**
Low rise flats	**31 March 2026**	**2,723**	**622**	**384**	**-**	**3,729**	
	31 March 2025	2,727	617	382	-		**3,726**
Medium rise flats	**31 March 2026**	**6,634**	**7,236**	**6,246**	**-**	**20,116**	
	31 March 2025	6,640	7,229	6,233	-		**20,102**
High rise flats	**31 March 2026**	**2,983**	**4,630**	**1,838**	**-**	**9,451**	
	31 March 2025	2,777	4,630	1,791	-		**9,198**
Multi-occupied	**31 March 2026**	**-**	**-**	**-**	**96**	**96**	
	31 March 2025	-	-	-	96		**96**
TOTALS	**31 March 2026**	**12,703**	**13,213**	**11,368**	**96**	**37,380**	
TOTALS	**31 March 2025**	**12,510**	**13,199**	**11,302**	**96**		**37,107**

2. ANALYSIS OF HOUSING STOCK BY TYPE OF DWELLING

In addition to the numbers shown in the table above, as at 31 March 2026 there were also 1,048 void properties (1,057 at 31 March 2025). These are mostly decanted properties within the major redevelopment projects currently underway; but whilst having been made secure, they have not yet been demolished.

3. VALUE OF HRA ASSETS

	2025/26	2024/25
	£000	£000
Council Dwellings	3,563,118	3,544,144
Other Land and Buildings	90.076	86,092
Vehicle Plant and Equipment	23,885	17,234
Infrastructure Assets	5,470	4,706
Surplus Assets	1,200	2,918
Asset Under Construction	324,787	437,094
Investment Property	109,259	113,470
Total	**4,117,795**	**4,205,658**

The vacant possession value of buildings as at 31 March 2026 was £13.8bn (£13.2bn as at 31 March 2025). The difference between the vacant possession value and Balance Sheet value of dwellings within the HRA shows the economic cost to the government of providing council housing at less than market rents.

4. DEPRECIATION OF REVALUATION CHARGES

	2025/26	2024/25
	£000	£000
Dwellings depreciation	46,067	44,129
Other property depreciation	2,991	2,300
Revaluation losses on non-current assets	269,478	181,250
Total	**318,536**	**227,679**

5. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

REFCUS is a class of expenditure that may meet statutory definitions of capital expenditure but is of a nature that is not consistent with the accounting standards definitions of additions to Property Plant and Equipment. Examples include expenditure incurred on assets that are not owned by the council, often referred to as a capital grant. Expenditure is charged to the Income and Expenditure Account as it arises but is then charged to the Capital Adjustment Account to be financed from capital resources. For the HRA this expenditure would include cash incentive payments (grants to tenants as an incentive to vacate their properties and purchase private accommodation), and statutory home loss payments where the council necessarily relocates tenants to other accommodation.

In 2024/25 £0.597 million was incurred in the HRA as REFCUS (£0.857 million in 2023/24).

6. MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE, NET AMOUNTS REQUIRED BY STATUTE

The following table shows Items included in the HRA Income and Expenditure Account, but which are excluded from the movement on HRA Balance for the year:

6. MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE, NET AMOUNTS REQUIRED BY STATUTE (continued)

	2025/26	2024/25
	£000	£000
Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	824	824
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(90)	(58)
Gain or loss on the sale of HRA non-current assets	39,346	28,351
HRA share of contributions (to)/from the Pensions Reserve	3,896	2,124
Capital expenditure funded by the HRA	36,670	41,450
Transfer to/(from) the Major Repairs Reserve	49,054	46,444
Transfer to/(from) the Capital Adjustment Account	(294,828)	(205,397)
Net amount required by statute to be charged to/(excluded from) the HRA	**(165,128)**	**(86,262)**

7. HRA BALANCE

HRA reserves as at 31 March 2026 of £24.784 million (£20.831 million as at 31 March 2025) are allocated as follows:

	31 March 2026	31 March 2025
	£000	£000
Modernisation, Service and Operational Improvement Reserve	(9,485)	(6,481)
Financial Risk Reserve	(15,299)	(14,350)
Total	**(24,784)**	**(20,831)**

The financial risk reserve of £14.4m includes £7.5m of general contingency, £5.6m of debt financing contingency and £1.3m to self-insure against catastrophic risks pertaining to the housing stock. The transformation, service and operating reserve of £6.5m comprises earmarked sums for estate parking £0.2m, great estates £0.2m, resident participation £0.4m, discretionary housing payments (DHP) £0.5m, and £0.9m to support the transformation of IT and the repairs service. The principle element £4.3m represents the HRA operating balance that is provisionally earmarked to mitigate the estimated cost of backlog works that have arisen and are to be addressed this financial year.

8. MAJOR REPAIRS RESERVE

	2025/26	2024/25
	£000	£000
Balance 1 April	-	-
Transfers from the Capital Adjustment Account	(49,054)	(46,444)
Transfer to (from) the HRA	-	-
Financing of capital expenditure	49,054	46,444
Balance 31 March	**-**	**-**

9. CAPITAL EXPENDITURE AND FINANCING

	2025/26	2024/25
	£000	£000
Capital Investment		
Non-current assets	197,777	202,377
REFCUS	640	597
Total	**198,417**	**202,974**
Funding Source:		
Revenue contributions	(36,689)	(40,000)
Capital receipts from the sales of assets	(46,318)	(51,729)
Grants and other contributions	(19,004)	(22,696)
Major Repairs Reserve	(49,054)	(46,444)
Borrowing	(47,352)	(42,105)
Total	**(198,417)**	**(202,974)**

10. CAPITAL RECEIPTS FROM DISPOSAL OF LAND, HOUSES AND OTHER PROPERTY WITHIN THE HOUSING REVENUE ACCOUNT

	2025/26	2024/25
	£000	£000
Council dwellings		
Right to Buy	(30,919)	(18,038)
Non Right to Buy	(27,869)	(20,787)
Other receipts		
Land sales	(9,474)	(9,969)
Mortgages		-
Sub total	**(68,262)**	**(48,794)**
Less: Pooled (paid to central Government)	-	-
Total	**(68,262)**	**(48,794)**

11. HOUSING TENANTS ACCOUNTS

	2025/26	2024/25 Restated
	£000	£000
Gross arrears as at 1 April	38,561	34,618
Prior year payments	(13,473)	(13,539)
Arrears as at 1 April	**25,088**	**21,079**
Charges due in the year	291,596	295,546
Rent rebates	(52,765)	(70,272)
Write-offs	(4,340)	(2,933)
Adjustments	(9,107)	(8,201)
Cash collected	(228,392)	(210,131)
Net arrears as at 31 March	**22,080**	**25,088**
Payments in advance	14,794	13,473
Gross arrears as at 31 March	**36,874**	**38,561**

The arrears position comprises all dwelling stock and non-residential properties, hostels and the Browning Estate Management Board. It excludes temporary accommodation, i.e. bed and breakfast, private sector leasing, and travellers' sites, as these are General Fund services.

12. IMPAIRMENT OF DEBTORS

	2025/26	2024/25
	£000	£000
Rents	(19,086)	(20,205)
Income from hostels	(2,316)	(3,711)
Court costs	(1,237)	(926)
Commercial rents	(4,493)	(3,789)
Penalty Charge Notices and parking warrants	(3,090)	(4,926)
Sundry debtors	(309)	(309)
Total	**(30,531)**	**(33,866)**

13. PENSIONS COSTS

The HRA is charged with the costs of pensions for its employees in accordance with IAS 19. The costs are then reversed out of the HRA to the Pensions Reserve. The values have no net effect on rents or other HRA income.

The apportionment of charges to the HRA under IAS 19 is based on the ratio of employer payroll costs incurred by the council for staff charged to the HRA against those employed for the council as a whole. This apportionment is also applied to actuarially assessed items such as pensions interest cost, the expected return on pension assets, and actuarial gains and losses.

13. PENSIONS COSTS (continued)

	2025/26	2024/25
	£000	£000
Current service cost less contributions	(3,503)	(1,828)
Interest on pension scheme liabilities	(393)	(296)
Actuarial (gains)/losses	3,882	2,127
Movement on the Pensions Reserve	**(14)**	**3**
Add Pension contributions attributable to the HRA	10,799	12,034
Total IAS 19 charges	**10,785**	**12,037**

14. INCOME, EXPENDITURE AND CHANGES IN THE FAIR VALUE OF INVESTMENT PROPERTIES

This disclosure identifies expenditure, rental/investment income and changes in the fair value of HRA shops and other HRA assets classified on the balance sheet as investment properties.

The net gain/(loss) included in the HRA Income and Expenditure Statement in 2025/26 is £9.794m (net gain of £0.56m in 2024/25).

COLLECTION FUND ACCOUNTS 2025/26

COLLECTION FUND

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund account. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the government of council tax and non-domestic rates (NDR).

INCOME AND EXPENDITURE ACCOUNT	Notes	Council Tax	Business Rates	Business Rates Supplement	2025/26	2024/25
		£000	£000	£000	£000	£000
Income						
Income from Council Tax	1	(211,786)			(211,786)	(197,375)
Transfer from the General Fund		(381)			(381)	(365)
Income from Business Rates	2		(345,222)		(345,222)	(314,519)
Transitional protection payments from DLUHC			(6,384)		(6,384)	(12,174)
Income from Business Rate Supplement (BRS)	3			(8,309)	(8,309)	(9,926)
Contribution from preceptors towards previous years Collection Fund deficit	4	(9,514)	(33,416)		(42,930)	(10,376)
Total Income		**(221,681)**	**(385,022)**	**(8,309)**	**(615,012)**	**(544,735)**
Expenditure						
Precepts and Demands						
Greater London Authority (GLA)		55,098			55,098	52,875
London Borough of Southwark		155,898			155,898	148,236
Share of Business Rates					-	
Greater London Authority (GLA)			128,269		128,269	126,755
London Borough of Southwark			104,002		104,002	102,774
Department of Levelling Up, Housing and Communities (DLUHC)			114,402		114,402	113,051
Cost of Collection allowance (NNDR)			755		755	755
Business Rate Supplement (BRS):	3				-	
Payment to GLA				8,292	8,292	9,910
Administrative costs				17	17	16
Council Tax impairment of debts:						
Increase/(decrease) allowance for non-collection		21,866			21,866	6,732
Write Offs					-	909
NDR Impairment of debts & appeals:					-	
Increase/(decrease) allowance for non-collection			4,340		4,340	(442)
Write Offs					-	(18)
Provision for appeals	5		(14,662)		(14,662)	11,357
Total Expenditure		**232,862**	**337,106**	**8,309**	**578,277**	**572,910**
Net deficit/(surplus) for the year		11,181	(47,916)	-	(36,735)	28,175
Deficit/(surplus) at 1 April		13,239	38,388	-	51,627	23,452
Deficit/(Surplus) at 31 March		**24,420**	**(9,528)**	**0**	**14,892**	**51,627**

The accompanying notes form an integral part of the financial statement.

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX

Council tax is a property-based tax which is assessed on the value of residential property. For this purpose, the Valuation Office Agency (VoA) categorises residential properties into eight valuation bands (A to H) using estimated market values as at 1 April 1991. The council tax charges are calculated by estimating the amount of income required from the Collection Fund by the council and preceptors for the forthcoming year, and dividing this by the council tax base, which is the estimated total number of properties liable to tax, expressed as a band D equivalent.

In 2025/26 the estimated income required from all preceptors for the Collection Fund was £211m (2024/25 £201.1m). The amount of council tax for a band D property was £1,877.90 in 2025/26 inclusive of the GLA precept (2024/25 £1,792.98) and is multiplied by the ratio specified for the particular band to give the council tax due from properties in those bands. The 2025/26 council tax base after allowing for adjustments for non-collection (96.5% collection rate) was 112,357.

The table below shows how the council tax base was set and the resulting band D council tax:

Band	Estimated number of properties after discounts		Ratio	Equivalent number of band D properties	
	2025/26	**2024/25**		**2025/26**	**2024/25**
A	7,375	8,267	6/9	4,916	5,511
B	26,309	27,408	7/9	20,462	21,317
C	28,310	28,086	8/9	25,164	24,965
D	24,188	23,347	9/9	24,188	23,347
E	18,468	17,674	11/9	22,572	21,601
F	7,043	6,867	13/9	10,173	9,919
G	4,412	4,294	15/9	7,353	7,157
H	802	790	18/9	1,604	1,580
Total	**116,907**	**116,733**		**116,432**	**115,397**
Less adjustment for collection rate				(4,075)	(3,231)
Council Tax Base for year				**112,357**	112,166
Estimated Income Required from Collection Fund				**£210,995,211**	£201,111,394
Band D Council Tax				**£1,877.90**	£1,792.98

2. NON-DOMESTIC RATES

Non-domestic rates (NDR), known as business rates, are collected from local businesses by the council. From 1 April 2013 the business rates retention scheme was introduced nationally.

For 2025/26, the regulations meant the council could retain 30% business rates income, with the remainder allocated to the Greater London Authority at 37% and the Ministry of Housing, Communities and Local Government (MHCLG) 33%.

Business rates are based on local rateable values set by the Valuation Office Agency (VoA) and a multiplier set by central government. The non-domestic rating multiplier and the small business non-domestic rating multiplier for England in 2025/26 were:

i) the standard multiplier was 55.5p (2024/25 54.6p)
ii) the small business multiplier was 49.9p (2024/25 49.9p)

Local businesses pay NDR calculated by multiplying their rateable value (RV) by the appropriate multiplier and subtracting any relevant reliefs. The total VoA rateable value in Southwark at 31 March 2026 was £817.6m (at 31 March 2025 £805.6m).

3. BUSINESS RATE SUPPLEMENT

Business rate supplements (BRS) are collected from local businesses by the council, on behalf of the GLA for the Crossrail project in London. For 2025/26, the levy remains set at 2p per pound of rateable value (RV), (unchanged since its inception in 2010) on non-domestic properties with a rateable value greater than £75,000.

4. CONTRIBUTION FROM PRECEPTORS OF THE PREVIOUS YEAR'S ESTIMATED COLLECTION FUND DEFICIT

As a billing authority, the council is required to calculate an estimate of the surplus or deficit for the Collection Fund; for council tax by the 15 January and for non-domestic rates by 31 January each year. The estimated surplus or deficit is used in setting the council tax for the following year, by reducing council tax if there is a surplus or increasing council tax if there is a deficit. In January 2025 the Council estimated a Council Tax deficit of £9.514m and NDR deficit of £33.416m for 2025/26, as follows:

	Council Tax	Business Rates	Total
	£000	£000	£000
(Surplus) / Deficit as at March 24	3,967	10,849	14,816
Estimated in-year (surplus)/deficit for 2024/25	5,547	22,567	28,114
Estimated (surplus) / deficit as at March 25	**9,514**	**33,416**	**42,930**

The estimated deficit apportioned between the council, the GLA and MHCLG as follows:

Authority	Council Tax		Business Rates		Total
	%	£000	%	£000	£000
Southwark Council	73.71%	7,013	30	10,025	17,038
Greater London Authority	26.29%	2,501	37	12,364	14,865
Central Government			33	11,027	11,027
Estimated (surplus) / deficit for 2024/25 redistributed in 2025/26		**9,514**		**33,416**	**42,930**

5. PROVISION FOR BUSINESS RATE APPEALS

The introduction of the business rates retention scheme in 2013 allows the council to retain a share of any growth in non-domestic rates (NDR) income but also transfers some of the risks of losses.

As at 31 March 2026, 1,098 appeals cases remain unsettled and outstanding with the VoA. Following the 2023 revaluation, a check, challenge, and appeals policy was introduced by central government to reform the business rates appeals system applicable to the new rating list effective on 1 April 2023. The check and challenge system is designed to make the business rates appeals assessment and application process more stringent to reduce the level of unsubstantiated appeals lodged with the VoA.

The provision for alteration of lists and appeals as at 31 March 2026 is £16.8m (£31.4m as at 31 March 2025), a decrease of £14.6m with Southwark council's share being £5.0m.

Share of provision	Southwark Council	GLA	MHCLG	Total
	30%	37%	33%	100%
	£m	£m	£m	£m
2025/26	5.0	6.2	5.5	**16.8**
2024/25	9.4	11.6	10.4	**31.4**

PENSION FUND ACCOUNTS 2025/26

PENSION FUND ACCOUNTS

FUND ACCOUNT

	Note	2025/26		2024/25	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	7	(79,042)		(74,225)	
Transfers in from other pension funds	8	(5,195)		(8,016)	
Subtotal			**(84,237)**		**(82,241)**
Benefits	9	88,577		81,308	
Payments to and on account of leavers	10	12,279		8,380	
Subtotal			**100,856**		**89,688**
Net (additions)/withdrawals from dealing with members of the fund			**16,619**		**7,447**
Management expenses	11		17,837		15,046
Net (additions)/withdrawals including fund management expenses			**34,456**		**22,493**
Returns on investments					
Investment income	12	(45,957)		(46,547)	
Taxes on income	12	1,068		281	
Profit and losses on disposal of investments and changes in market value of investments	14a	(161,497)		(1,284)	
Net return on investments			**(206,386)**		**(47,550)**
Net (increase)/decrease in the net assets available for benefits during the year			**(171,930)**		**(25,057)**
Opening net assets of the scheme			(2,261,240)		(2,236,183)
Closing net assets of the scheme			**(2,433,170)**		**(2,261,240)**

NET ASSETS STATEMENT

	Note	31 March 2026 £000	31 March 2025 £000
Long term investments		220	150
Investment assets	14	2,433,000	2,261,790
Total Net Investments		**2,433,220**	**2,261,940**
Current assets	21	3,390	2,298
Current liabilities	22	(3,440)	(2,998)
Net assets of the scheme available to fund benefits as at 31 March		**2,433,170**	**2,261,240**

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The estimated actuarial present value of promised retirement benefits is disclosed at note 20.

NOTES TO THE PENSION FUND STATEMENTS

1. DESCRIPTION OF THE FUND

The Pension Fund (the fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Southwark Council (the council).

The following description of the fund is a summary only. For more detail, reference should be made to the pension fund annual report and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the LGPS Regulations.

i. General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit pension scheme administered by Southwark Council to provide pensions and other benefits for former employees of the council and a number of other scheduled and admitted bodies within the London Borough of Southwark.

The overall investment strategy is the responsibility of the council as the administering authority of the fund. This responsibility is delegated to the Strategic Director of Resources, taking account of the advice of the Pensions Advisory Panel. In line with the provisions of the Public Service Pensions Act 2013, the council has set up a Local Pension Board to assist the council in its role as scheme manager of the Pension Fund. The board meets on a quarterly basis and has its own terms of reference. Board members are independent of the Pensions Advisory Panel.

A list of participating organisations and their contributions for the financial year is included within the pension fund annual report. This is available from the council website.

1. DESCRIPTION OF THE FUND continued

ii. Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the fund include:

- Scheduled bodies, which are largely academies and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

A list of participating organisations and their contributions for the financial year is included within the pension fund annual report. This is available from the council website.

Membership details for the fund are set out below:

	31 March 2026	31 March 2025
Number of contributors to the fund	7,096	8,184
Number of contributors and dependants receiving allowances	8,075	8,157
Number of contributors who have deferred their pensions	9,369	9,009
Total contributors	**24,540**	**25,350**

iii. Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2026. Employee contributions are matched by employers' contributions which are set in accordance with the triennial actuarial funding valuations. The 2025-26 employer contributions rates were specified in the 31 March 2022 actuarial valuation. In the 2025-26 financial year, primary employer contribution rates ranged from 14.8% to 32.2% of pensionable pay plus additional deficit payments where appropriate.

iv. Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014 the scheme became a career average scheme. A range of other benefits is also provided including early retirement, disability pensions and death benefits as explained on the LGPS website.

	Service pre 1 April 2008	**Service post 31 March 2008**	**From 1 April 2014**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is accrued at 1/49 of pensionable pay for the year
Lump Sum	Automatic lump sum of 3 x pension. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2025-26 financial year and its year-end position as at 31 March 2026. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ("the Code") in the United Kingdom 2025-26, which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. The new standards issued but not yet adopted by the Code for 2025-26 are: Amendments to FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (Amendments to Heritage assets) issued in March 2024, Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7) issued in May 2024 and Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7) issued in December 2024. These new accounting standards are expected to have little or no impact for LGPS fund accounts.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The fund has opted to disclose this information in note 20.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contributions income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all schemes that rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis. Bulk group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment Income

- Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

- Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

- Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset.

- Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

- Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits and/or losses during the year.

Fund Account – Expense Items

d) Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Management Expenses

The Fund discloses its management expenses in line with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016)*. All items of expenditure are charged to the fund on an accruals basis.

Administrative Expenses	All staff costs of pensions administration are charged directly to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.
Oversight and Governance	All staff costs associated with oversight and governance are charged directly to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.
Investment Management Expenses	Fees for the fund managers and custodian are agreed in the respective mandates governing their appointments and are based broadly on the market value of the investments under their management and therefore increase or reduce as the values of these investments change.

f) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Net Assets Statement

g) Financial Assets

Investment assets are included in the net assets statement on a fair value or amortised cost basis as at the reporting date. Cash held by fund managers and the fund's own cash are at amortised cost.

A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the fund. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. Details of the basis of valuation and disclosure levels within the fair value hierarchy are provided at note 16. Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

h) Freehold and leasehold property

The independent valuation of the direct property portfolio managed on behalf of the fund by Nuveen Investment Management is carried out by Knight Frank LLP. The valuer is a member firm of the Royal Institute of Chartered Surveyors (RICS) and the valuation was at 31 March 2026. All properties are included in the accounts at fair value as at 31 March each year.

i) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

j) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external investment managers. All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in value.

l) Loans and receivables

Financial assets classed as amortised cost are carried in the net asset statement at the value of outstanding principal receivable at the year-end date plus accrued interest.

m) Financial liabilities

The fund recognises financial liabilities at fair value or amortised cost as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on an annual basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (note 20).

o) Additional voluntary contributions

The fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVC assets are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in note 23.

p) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events. A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise when it is not possible at the net assets statement date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies in note 3 the council has had to make critical judgements about complex transactions and those involving uncertainty about future events. During 2025-26 critical judgements were made regarding directly held property, details of which are set out below.

Directly held property

The fund's investment portfolio includes a number of directly owned properties which are leased commercially to various tenants with rental periods between six months and five years. The fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by the Code, therefore the properties are retained on the net assets statement at fair value. Rental income is recognised in the fund account on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., if there is a premium paid at the inception of the lease).

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES IF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from the assumptions and estimates made. The items for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of retirement benefits	This applies to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The actuarial firm, Aon is engaged to provide the Fund with expert advice about the assumptions.	The approximate impacts of changing the key assumptions on the present value of retirement benefits are: - a 0.1% change in the discount rate would be +/- £26.3m - a 0.1% change in the rate at which salaries are projected to increase would be +/- £1.9m - a 0.1% change in the rate of pension increase would be +/- £24.5m - a one year change in mortality assumptions would be +/- £41.4m
Freehold and leasehold property	Valuation techniques are used to determine the carrying amount of directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible, management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation, estimated to be 4.6% would see an increase or decrease in the value of directly held property of £12.4m on a fair value of £268.9m.
Pooled property, infrastructure and private equity funds	The investment portfolio held by the pension fund includes properties and assets managed by investment managers on a pooled basis. As the assets are unquoted, values are estimated by the managers using comparable market data, indices and other information from third parties as well as projected revenue streams associated with the assets. The pooled property, infrastructure and private equity funds may not have published prices, are not regularly traded and have many unobservable inputs feeding into their valuations and are therefore treated as level 3 investments.	The effect of variations in the factors supporting the valuation of pooled property funds is estimated to be 4.6% which would see a potential increase or decrease of £4.8m on a fair value of £103.9m. For the pooled infrastructure and private equity holdings, the variations are estimated to be 7.9% and 16.9% respectively meaning a potential increase or decrease in the value of infrastructure funds of £18.3m on a fair value of £231.1m and an increase or decrease in the value of private equity holdings of £9.9m on a fair value of £59m.

6. EVENTS AFTER THE REPORTING DATE

There have been no material adjusting events after the reporting date.

7. CONTRIBUTIONS RECIEVABLE

By category:

	2025/26 £000	2024/25 £000
Employees' contributions	**(19,892)**	**(18,269)**
Employers' contributions		
Normal	(57,280)	(53,574)
Deficit funding	146	301
Early retirement strain	(2,016)	(2,683)
Total contributions from employers	**(59,150)**	**(55,956)**
Total	**(79,042)**	**(74,225)**

By type of employer:

	2025/26			2024/25		
	Employees £000	Employers £000	Total £000	Employees £000	Employers £000	Total £000
Southwark Council	(17,739)	(52,228)	(69,967)	(16,229)	(49,486)	(65,715)
Admitted bodies	(245)	(791)	(1,036)	(250)	(874)	(1,124)
Scheduled bodies	(1,908)	(6,131)	(8,039)	(1,790)	(5,596)	(7,386)
Total	**(19,892)**	**(59,150)**	**(79,042)**	**(18,269)**	**(55,956)**	**(74,225)**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfer values received in from other pension funds were as follows:

	2025/26 £000	2024/25 £000
Individual transfers	(5,195)	(8,016)
Total	**(5,195)**	**(8,016)**

9. BENEFITS PAYABLE

By category:

	2025/26 £000	2024/25 £000
Pensions	69,723	67,302
Commutation of pensions and lump sum retirement benefits	16,056	12,338
Lump sum death benefits	2,798	1,668
Total	**88,577**	**81,308**

9. BENEFITS PAYABLE continued

By type of employer:

	2025/26 £000	2024/25 £000
Southwark Council	82,987	76,977
Admitted bodies	3,343	2,795
Scheduled bodies	2,247	1,536
Total	**88,577**	**81,308**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2025/26 £000	2024/25 £000
Refund of contributions	193	122
Individual transfers out to other schemes	12,086	8,258
Total	**12,279**	**8,380**

11. MANAGEMENT EXPENSES

	2025/26 £000	2024/25 £000
Administrative costs	3,214	3,266
Investment management expenses *	13,253	10,723
Oversight and governance costs	1,370	1,057
Total	**17,837**	**15,046**

The council incurred costs of £1m (2024-25 £1m) in relation to the administration and governance of the fund during the year and was reimbursed by the fund for these expenses.

* In the interests of greater transparency, the council discloses its fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016)*. In line with the guidance, investment management expenses have been grossed up to include fees deducted from fund assets at source.

11a. INVESTMENT MANAGEMENT EXPENSES

	2025/26 £000	2024/25 £000
Management fees	12,504	11,115
Transaction costs *	639	(498)
Custody fees	110	106
Total	**13,253**	**10,723**

* There was a large anti-dilution offset in 2024-25 due to the level of capital activity in the pooled arrangements the Fund is invested in.

12. INVESTMENT INCOME

	2025/26 £000	2024/25 £000
Dividends from equities	(5,000)	(4,750)
Income from pooled funds	(27,541)	(28,539)
Income from pooled property funds	(2,257)	(2,441)
Net rental income from properties	(11,125)	(10,772)
Interest on cash deposits	(34)	(45)
Total before taxes	**(45,957)**	**(46,547)**
Taxes on income	1,068	281
Total after taxes	**(44,889)**	**(46,266)**

12a. PROPERTY INCOME

	2025/26 £000	2024/25 £000
Rental income	(13,600)	(13,003)
Direct operating expenses	2,475	2,231
Net rental income from properties	**(11,125)**	**(10,772)**

13. EXTERNAL AUDIT COSTS

	2025/26 £000	2024/25 £000
Payable in respect of external audit	89	86
Total	**89**	**86**

Local Government audit fees are set by the Public Sector Audit Appointments body (PSAA). The scale audit fee set out in the PSAA contract for the 2025-26 audit is £89k (2024-25 £86k).

14. INVESTMENT ASSETS

	31 March 2026 £000	31 March 2025 £000
Long Term Investments		
Equities	220	150
Total	**220**	**150**
Investment Assets		
Equities	282,239	235,825
Pooled Funds		
Equities	569,717	493,076
Property	103,941	122,520
Infrastructure	231,102	230,921
Private equity	59,033	60,066
Multi asset credit	229,982	219,440
Liquidity and money market funds	13,356	14,658
Unitised Insurance Policies		
Fixed income	239,041	230,093
Equities	416,785	393,312
Property	268,975	248,300
Other investment balances	18,829	13,579
Total Investment Assets	**2,433,000**	**2,261,790**
Net Investments	**2,433,220**	**2,261,940**

14a. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year. The table below shows the movement in investment assets and the change in market value for the year:

	Opening balance	Purchases and derivative payments	Sales and derivative receipts	Change in market value	31 March 2026
	£000	£000	£000	£000	£000
Long term investment	150	70	-	-	220
Equities	235,825	97,595	(92,005)	40,824	282,239
Pooled funds	1,003,503	21,017	(3,578)	68,892	1,089,834
Pooled property funds	122,520	2,257	(1,517)	(19,319)	103,941
Unitised insurance policies	623,405	-	(35,845)	68,266	655,826
Property	248,300	18,824	(944)	2,795	268,975
	14,658	114,350	(115,838)	186	13,356
	2,248,361	**254,113**	**(249,727)**	**161,644**	**2,414,391**
Derivatives - forward currency contracts	-	72	(98)	26	-
	2,248,361	**254,185**	**(249,825)**	**161,670**	**2,414,391**
Other investment balances	13,579			(173)	18,829
Total	**2,261,940**			**161,497**	**2,433,220**

Forward currency contract settlements are recognised as cash receipts or payments depending on whether there is a realised gain or a realised loss.

	Opening balance	Purchases and derivative payments	Sales and derivative receipts	Change in market value	31 March 2025
	£000	£000	£000	£000	£000
Long term investment	150	-	-	-	150
Equities	313,576	108,715	(183,378)	(3,088)	235,825
Pooled funds	982,677	37,959	(25,313)	8,180	1,003,503
Pooled property funds	129,685	2,719	(1,034)	(8,850)	122,520
Unitised insurance policies	561,358	94,681	(36,572)	3,938	623,405
Property	218,775	22,874	-	6,651	248,300
Liquidity and money market funds	18,304	165,335	(169,213)	232	14,658
	2,224,525	**432,283**	**(415,510)**	**7,063**	**2,248,361**
Derivatives - forward currency contracts	-	210	(533)	323	-
	2,224,525	**432,493**	**(416,043)**	**7,386**	**2,248,361**
Other investment balances	1,738			(6,102)	13,579
Total	**2,226,263**			**1,284**	**2,261,940**

The Pension Fund does not hold derivatives as a main asset class but they are used by the active equity fund manager, Newton Investment Management, to hedge the currency risk of holding global equities. The currency forward contracts are traded over the counter.

The fund's Investment Strategy Statement can be accessed on the council's website.

14b. INVESTMENTS ANALYSED BY FUND MANAGER

The market values of assets managed by investment managers at the balance sheet date 31 March 2026 are set out in the table below:

	31 March 2026		31 March 2025	
	£000	%	£000	%
BlackRock	585,358	24%	529,531	23%
Blackstone	59,033	3%	60,066	3%
Brockton Capital	9,120	0%	9,130	0%
BTG Pactual	38,984	2%	38,362	2%
Comgest	113,594	5%	91,993	4%
Darwin	33,233	1%	41,078	2%
Frogmore *	1	0%	3,252	0%
Glennmont	57,997	2%	47,637	2%
Invesco	36,042	2%	46,228	2%
LCIV CQS	114,903	5%	108,730	5%
Legal and General Investment Managers	544,201	22%	516,002	23%
M&G	43,943	2%	43,521	2%
Newton Investment Management	291,783	12%	246,236	11%
Nuveen	277,725	11%	253,099	11%
Robeco	115,079	5%	110,710	5%
Temporis	98,640	4%	101,557	5%
Legal and General Investment Managers SLF	5,052	0%	5,021	0%
Northern Trust MMF	162	0%	2,196	0%
Blackrock MMF	8,142	0%	7,441	0%
Northern Trust Bank - cash balance with custodian **	8	0%	-	-
Total with fund managers	**2,433,000**	**100%**	**2,261,790**	**100%**
Long term investment	220		150	
Total	**2,433,220**		**2,261,940**	

*The Frogmore Real Estate Partners III L.P. Fund terminated on 31 October 2025 and is being liquidated in accordance with the terms of the Limited Partnership Agreement. A final account statement will be issued to Limited Partners at the end of the process after all assets have been disposed of and all liabilities settled. In the meantime, these events are reflected in the fund's valuation of its interest remaining with Frogmore.

** Following a market review, the fund appointed The Northern Trust Company to deliver Global Custody Services with effect from 1 April 2025. Prior to this date, these services were provided by JPMorgan Chase Bank.

The following investments represent more than 5% of investment assets at 31 March 2026:

Name of Investment	Fund manager	31 March 2026	% of investment assets	31 March 2025	% of investment assets
		£000	%	£000	%
Blackrock ACS World Low Carbon Target	BlackRock	456,124	19%	401,083	18%
Low Carbon Transition Dev Markets Equity	Legal and General	416,785	17%	393,311	17%
LGIM Over 5 year Index-Linked Gilts Index	Legal and General	127,416	5%	122,690	5%
Robeco Climate Global Credits fund	Robeco	115,079	5%	110,710	5%
LCIV Alternative Credit Fund (Class A Acc)	LCIV CQS	114,903	5%	108,730	5%
Comgest Growth Emerging Markets Plus	Comgest	113,594	5%	91,993	4%
Aquila Life Over 5 year UK Index-Linked S1	BlackRock	111,625	5%	107,403	5%

14c. PROPERTY HOLDINGS

The fund's investment portfolio includes a number of directly owned properties that are leased commercially to various tenants. Details of these properties are as follows:

	£000	£000
Opening balance	**248,300**	**218,775**
Additions:		
Purchases	17,046	17,891
Subsequent expenditure	1,778	4,983
Disposals	(944)	-
Net increase/(decrease) in market value	2,795	6,651
Closing balance	**268,975**	**248,300**

The future minimum lease payments receivable are as follows:

	31 March 2026 £000	31 March 2025 £000
Within one year	15,285	11,365
Between one and five years	46,661	34,719
Later than five years	96,882	110,434
Total future lease payments due under existing contracts	**158,828**	**156,518**

15. ANALYSIS OF DERIVATIVES

The fund does not currently have exposure to derivatives.

16. FAIR VALUE - BASIS OF VALUATION

The valuation of financial instruments has been classified into three levels in accordance with IFRS 13 according to the quality and reliability of information used to determine fair values.

Level 1 assets are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2 assets are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 assets are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data.

PENSION FUND ACCOUNTS continued

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Quoted equities	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short term nature of these financial instruments	Not required	Not required
Forward foreign exchange derivatives	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required
Pooled investments – unit trusts	Level 2	Closing bid price where bid and offer prices are published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required
		Closing single price where single price published		
Pooled investments - property funds	Level 3	Closing single price at end of accounting period	NAV based pricing valued in accordance with RICS red book valuation standards	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Pooled investments - infrastructure	Level 3	Based upon the fund's share of net assets in the limited partnership using latest valuations updated for cash flows	Purchase price at acquisition for newer or non-operational assets, estimated cash flows, government price support	Market prices and cash yields, government policies on energy subsidies, pace of shift to renewable and clean energy, discount rates
Pooled investments - private equity	Level 3	Based upon the fund's share of net assets in the limited partnership using latest valuations updated for cash flows	NAV based pricing set on a forward pricing basis. Cashflow transactions, i.e. Distributions of capital	Material events between date of financial statements provided and the pension fund's own reporting date. Differences between audited and unaudited accounts
Unitised insurance policies	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required
Freehold, leasehold properties	Level 3	Valued at fair value at the year-end by independent valuers. Valued in accordance with RICS red book valuation standards	Existing lease terms and rentals; Independent market research; Nature of tenancies; Covenant strength for existing tenants; Assumed vacancy levels; Estimated rental growth; Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

16a. FAIR VALUE HIERARCHY

The following table shows the fair value valuation hierarchy of fund assets and liabilities.

Value as at 31 March 2026	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit and loss				
Equities	282,239	220	-	**282,459**
Pooled Funds				
Equities	-	569,717	-	**569,717**
Multi asset credit	-	229,982	-	**229,982**
Property	-	-	103,941	**103,941**
Infrastructure	-	-	231,102	**231,102**
Private equity	-	-	59,033	**59,033**
Liquidity and money market funds	-	13,356		**13,356**
Unitised Insurance Policies				
Fixed income	-	239,041	-	**239,041**
Equities	-	416,785	-	**416,785**
Other investment balances	18,829			**18,829**
Total financial assets	**301,068**	**1,469,101**	**394,076**	**2,164,245**
Non-financial assets at fair value through profit and loss				
Property	-	-	268,975	**268,975**
Total	**301,068**	**1,469,101**	**663,051**	**2,433,220**

Value as at 31 March 2025	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit and loss				
Equities	235,825	150	-	**235,975**
Pooled Funds				
Equities	-	493,076	-	**493,076**
Multi asset credit	-	219,440	-	**219,440**
Property	-	-	122,520	**122,520**
Infrastructure	-	-	230,921	**230,921**
Private equity	-	-	60,066	**60,066**
Liquidity and money market funds	-	14,658		**14,658**
Unitised Insurance Policies				
Fixed income	-	230,093	-	**230,093**
Equities	-	393,312	-	**393,312**
Other investment balances	13,579		-	**13,579**
Total financial assets	**249,404**	**1,350,729**	**413,507**	**2,013,640**
Non-financial assets at fair value through profit and loss				
Property	-	-	248,300	**248,300**
Total	**249,404**	**1,350,729**	**661,807**	**2,261,940**

16b. FAIR VALUE HIERARCHY

There were no transfers between levels during the year.

16c. RECONCILIATION OF FAIR VALUE MEASUREMENTS WTIHIN LEVEL 3

The following table shows the reconciliation of fair value measurements within level 3:

	Opening balance	Purchases	Sales	Realised gain/(loss)	Unrealised gain/(loss)	31 March 2026
	£000	£000	£000	£000	£000	£000
Financial assets at fair value through profit and loss						
Pooled Funds						
Property	122,520	2,257	(1,517)	(1,916)	(17,403)	**103,941**
Infrastructure	230,921	9,642	(3,580)	13	(5,894)	**231,102**
Private equity	60,066	11,345	-	-	(12,378)	**59,033**
Non-financial assets at fair value through profit and loss						
Property	248,300	18,824	(944)	(4,464)	7,259	**268,975**
Total	**661,807**	**42,068**	**(6,041)**	**(6,367)**	**(28,416)**	**663,051**

	Opening balance	Purchases	Sales	Realised gain/(loss)	Unrealised gain/(loss)	31 March 2026
	£000	£000	£000	£000	£000	£000
Financial assets at fair value through profit and loss						
Pooled Funds						
Property	129,685	2,719	(1,034)	(692)	(8,158)	**122,250**
Infrastructure	218,256	32,052	(635)	635	(19,387)	**230,291**
Private equity	56,471	-	-	-	3,595	**60,066**
Non-financial assets at fair value through profit and loss						
Property	218,775	22,874	-	-	6,651	**248,300**
Total	**623,187**	**57,645**	**(1,669)**	**(57)**	**(17,299)**	**661,807**

Sensitivity of assets valued at level 3

Having analysed historical data, information received from valuers and the valuation techniques of fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges:

	Assessed valuation range	Value as at 31 March 2026	Value on increase	Value on decrease
		£000	£000	£000
Pooled Funds				
Property	4.6%	103,941	108,722	99,160
Infrastructure	16.9%	231,102	270,158	192,046
Private equity	16.9%	59,033	69,010	49,056
Property	4.6%	268,975	281,348	256,602
Total		**663,051**	**729,238**	**596,864**

17. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table shows the classification of the Pension Fund's financial instruments:

	31 March 2026	31 March 2025
	£000	£000
Financial assets		
Fair value through profit and loss		
Equities	282,459	235,975
Pooled investments	1,103,190	1,018,161
Pooled property investments	103,941	122,520
Unitised insurance policies	655,826	623,405
Amortised cost		
Cash	725	670
Other investment balances	18,829	13,579
Debtors	2,665	1,628
Total	**2,167,635**	**2,015,938**
Financial liabilities		
Amortised cost		
Creditors	(3,440)	(2,998)
Net Total	**2,164,195**	**2,012,940**

17a. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

All realised (gains) and losses arise from the sale or disposal of financial assets that have been derecognised in the financial statements.

	2025/26	2024/25
	£000	£000
Financial assets		
Fair value through profit and loss	(158,875)	(735)
Amortised cost	173	6,102
Total	**(158,702)**	**5,367**

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management therefore is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Strategic Director of Resources advised by the Pensions Advisory Panel. Risk management policies are established to identify and analyse the risks faced by the pension fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters whilst optimising the return.

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the pension fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All security investments present a risk of a loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The fund's investment managers mitigate this price risk through diversification, and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Potential price changes are determined based on historical data and volatility of asset class returns. For example, 'riskier' assets such as equities will display greater potential volatility than bonds. The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased. In consultation with the fund's investment advisers, the pension fund has determined that the following movements in market price risk are reasonably possible:

2025/26 - asset type	31 March 2026	Change	Value on increase	Value on decrease
	£000	%	£000	£000
Fixed income	239,041	6.7%	255,057	223,025
Equities	1,268,961	10.8%	1,406,009	1,131,913
Multi asset credit	229,982	6.7%	245,391	214,573
Property	372,916	4.6%	390,070	355,762
Infrastructure	231,102	7.9%	249,359	212,845
Private equity	59,033	16.9%	69,010	49,056
Liquidity and money market funds	13,356	0.8%	13,463	13,249
Other Investment balances	18,829	0.8%	18,980	18,678
Total	**2,433,220**		**2,647,338**	**2,219,102**

2024/25 - asset type	31 March 2025	Change	Value on increase	Value on decrease
	£000	%	£000	£000
Fixed income	230,093	7.2%	246,660	213,526
Equities	1,122,363	11.8%	1,254,802	989,924
Multi asset credit	219,440	7.3%	235,459	203,421
Property	370,820	6.0%	393,069	348,571
Infrastructure	230,921	7.3%	247,778	214,064
Private equity	60,066	7.3%	64,451	55,681
Liquidity and money market funds	14,658	0.9%	14,790	14,526
Other Investment balances	13,579	0.9%	13,701	13,457
Total	**2,261,940**		**2,470,710**	**2,053,170**

The potential changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as shown in the table.

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS continued

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the pension fund and its investment advisers in accordance with the fund's risk management strategy including, monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

Fixed interest securities are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%:

Assets exposed to interest rate risks	Market value	Value on 1% rate increase	Value on 1% rate decrease
	£000	£000	£000
As at 31 March 2026	**239,041**	241,431	236,651
As at 31 March 2025	**230,093**	232,394	227,792

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. A strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits.

The fund's currency risk is routinely monitored by the pension fund and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Overseas equities, fixed interest securities and futures, cash in foreign currencies and some elements of pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of assets exposed to currency risk had there been a 6.8% strengthening or weakening of the pound against foreign currencies.

Assets exposed to currency risk	Value	Change	Value on foreign exchange rate increase	Value on foreign exchange rate decrease
	£000	%	£000	£000
As at 31 March 2026	**421,324**	6.8%	449,974	392,674
As at 31 March 2025	**374,901**	5.4%	395,146	354,656

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The selection of high-quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Money market funds and the bank account have the highest credit ratings from a leading ratings agency and the fund has set limits on the maximum sum placed on deposit with individual financial institutions.

The table below shows the credit rating of the fund's money market and bank deposit holdings at 31 March 2026:

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS continued

Fund/Account	Rating *	31 March 2026 £000	31 March 2025 £000
Money market funds			
BlackRock Institutional Sterling Liquidity Fund	AAAmmf	8,142	7,441
LGIM Sterling Liquidity Fund	AAAmmf	5,052	5,021
Northern Trust Sterling Liquidity Fund	AAAmmf	162	2,196
		13,356	**14,658**
Bank accounts			
NatWest Bank plc	A+	740	760
Northern Trust Bank	AA-	8	-
Total		**14,104**	**15,418**

*Long-term Fitch rating

Liquidity risk

This is the risk that the pension fund may not have the funds available to meet payments as they fall due. Historically the fund has been cash positive (i.e. contributions received have been greater than benefits paid out). However, in recent years this position has reversed with benefits paid now surpassing contributions received. The reduction in active members and a resulting change in the membership profile have increased the liquidity risk of the fund going forward.

The fund currently has two banking arrangements. One is the bank account held by the global custodian which holds cash relating to investment activities, the other is the pension fund linked bank current and deposit account arrangement which holds the cash relating to member activities.

There is a strategy in place to forecast all income and expenditure for the pension fund to ensure that sufficient funds will be made available to meet short-term commitments. In the event that there are insufficient available assets to meet liabilities when they fall due, the fund would be able to redeem investment assets and recall cash resources from investment managers at short notice to meet this requirement.

19. FUNDING ARRANGEMENTS

Statement of the Actuary for the year ended 31 March 2026

Introduction

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013 (the 'LGPS Regulations').

The LGPS Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the 'Fund') is able to meet its liabilities to past and present contributors and to review employer contribution rates. The latest full actuarial valuation of the Fund was completed as at 31 March 2025 by Aon, in accordance with Regulation 62 of the LGPS Regulations and the funding principles set out in the Fund's Funding Strategy Statement. The results of the valuation are set out in Aon's report dated 31 March 2026 (the "actuarial valuation report") which is available at the following address: https://www.southwarkpensions.co.uk/media/3qjjs4ri/lb-of-southwark-pension-fund-2025-actuarial-valuation-report-final-issued-31-march-2026.pdf

Actuarial Position

- The actuarial valuation as at 31 March 2025 showed that the funding level of the Fund had remained the same since the previous valuation, with the market value of the Fund's assets as at 31 March 2025 (of £2,261.2m) covering 110% of the liabilities.
- The overall Fund primary contribution rate was assessed to be 17.2% of pensionable pay. The primary rate is the employers' overall share of the cost of benefits being earned in the future.
- The valuation also assessed each individual employer's (or group of employers') position separately. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, recovery/amortisation periods and treatment of surplus as agreed with the Administering Authority and set out in the Funding Strategy Statement, reflecting the employers' circumstances.

19. FUNDING ARRANGEMENTS (continued)

- Total contributions payable by all employers over the three years to 31 March 2029 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£m)
2026	17.1%	0.004
2027	17.1%	0.004
2028	17.1%	0.004

Certain employers who are in surplus in excess of 110% are paying contributions below their share of the cost of benefits being earned in the future. Whilst the overall Fund has a surplus, additional monetary contributions are payable for individual employers assessed to have a deficit.

Assumptions and method

- The valuation was carried out using the projected unit actuarial method for most employers, allowing for future increases in pensionable pay. The main financial actuarial assumptions used for assessing the funding target and contribution rates were as follows:

Discount Rate	4.5% p.a.
Rate of pay increases	3.6% p.a.
Rate of increase to pension accounts	2.1% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.1% p.a.

- The assets were valued at market value.

- The key demographic assumption was the allowance made for longevity. The post-retirement mortality assumption adopted for the actuarial valuation was based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis, and included an allowance for future improvements. Full details (including the other demographic assumptions) are set out in the actuarial valuation report. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.2	24.6
Current active members aged 45 at the valuation date	22.6	25.2

- The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2025. As such the results do not make allowance for changes which have occurred after the valuation date. The Fund monitors the funding position on a regular basis via funding updates from the actuary.

- The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2026 to 31 March 2029 were signed on 31 March 2026. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2028 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

- The Government Actuary's Department carries out a review of all LGPS pension fund valuations in England and Wales under Section 13 of the Public Service Pensions Act 2013, to ensure they are following the Regulations and to assess whether the valuations are being carried out in a broadly consistent way. The review for the 2025 valuations has not yet been completed.

- This Statement has been prepared by the actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2025. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

  This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

- Aon does not accept any responsibility or liability to any party other than our client, the London Borough of Southwark, the Administering Authority of the Fund, in respect of this Statement.

  Aon Solutions UK Limited
  May 2026

20. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

As required by IAS 26 Accounting and Reporting by Retirement Benefit Plans, in addition to the triennial valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities every year using assumptions in line with IAS 19 to provide an estimate of the actuarial present value of promised retirement benefits.

As an actuarial valuation has not been prepared at the date of these financial statements, the promised retirement benefits at 31 March 2026 have been projected using a roll forward approximation from the latest formal funding valuation at 31 March 2025.

	31 March 2026	31 March 2025
	£m	£m
Fair value of net assets	2,431	2,270
Actuarial present value of promised retirement benefits	(1,882)	(1,652)
Surplus/(deficit) in the fund as measured for IAS 26	**549**	**618**

These figures are prepared only for the purposes of providing the information required by IAS 26 and are not relevant to calculations undertaken for funding purposes.

Key assumptions used are:

	31 March 2026	31 March 2025
Discount rate	6.20% p.a.	5.80% p.a.
Pension increases	2.80% p.a.	2.50% p.a.
Salary increases	4.30% p.a.	4.00% p.a.

21. CURRENT ASSETS

The current assets of the fund are analysed as follows:

	31 March 2026	31 March 2025
	£000	£000
Contributions due - employees	226	265
Contributions due - employers	1,658	1,250
Sundry debtors	628	113
Prepayments	153	-
Sub-total	**2,665**	**1,628**
Cash balances	725	670
Total	**3,390**	**2,298**

22. CURRENT LIABILITIES

The current liabilities of the fund are analysed as follows:

	31 March 2026	31 March 2025
	£000	£000
Benefits payable	(1,095)	(986)
Professional fees	(236)	(415)
Investment fees	(937)	(638)
Taxes	(1,165)	(954)
Other	(7)	(5)
Total	**(3,440)**	**(2,998)**

23. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Fund Manager	Contributions Paid 2025/26	Market Value 31 March 2026	Contributions Paid 2024/25	Market Value 31 March 2025
	£000	£000	£000	£000
Aegon UK	539	4,064	383	3,564
Total	**539**	**4,064**	**383**	**3,564**

24. AGENCY SERVICES

	2025/26 £000	2024/25 £000
Payments made on behalf of Southwark Council	703	705
Total	**703**	**705**

The pension fund makes payment of discretionary added years pensions awarded to former employees of Southwark Council on an agency basis. These payments are fully recovered from the council during the year.

25. RELATED PARTY TRANSACTIONS

The fund is administered by Southwark Council and the council is therefore a related party to the fund. The council recharged the fund £1m in 2025-26 (£1m in 2024-25) to recover costs incurred in the administration and governance of the fund during the year.

No officers' remuneration is paid directly by the fund; costs are instead recovered by council recharges which are disclosed within note 11 management expenses.

The council is also the single largest employer of members of the pension fund and contributed £44.2m in employer's contributions to the fund in 2025-26 (£40.2m in 2024-25).

The Pensions Advisory Panel (PAP) offers advice to the Strategic Director of Resources. Five members of the PAP are currently active members of the pension fund whilst one member is in receipt of pension benefits. Members of the PAP are required to make a declaration of interest at each meeting which is recorded in the minutes that are available on the council website.

The council, via the Pension Fund, is a shareholder in London LGPS CIV Limited (the organisation set up to run pooled LGPS investments in London) and the net assets statement includes unquoted shares at cost £220k.

25a. KEY MANAGEMENT PERSONNEL

The council's Strategic Director of Resources, the Chief Investment Officer and the Head of Pensions Operations are considered key management personnel as they hold key positions in the financial management of the pension fund alongside their responsibilities to Southwark Council. Their remuneration pro-rata to the time spent on pension fund matters is set out below:

Type of benefit	2025/26 £000	2024/25 £000
Short term benefits	266	245
Post-employment benefits	22	18
Total	**288**	**263**

26. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) at 31 March 2026 totalled £58.9m (31 March 2025: £72.9m).

These commitments relate to outstanding call payments due on property and infrastructure funds. The amounts 'called' by these funds can be irregular in both size and timing over a number of years from the date of each original commitment.

GLOSSARY

ACCOUNTING STANDARDS
The laws, the CIPFA Code of Practice on Local Authority Accounting, regulations and professional codes that set out the proper accounting practices the council must follow.

ACCRUAL
The recognition of income and expenditure in the period to which they relate, rather than when cash is received or paid. This is reflected through debtors and creditors in the Balance Sheet.

ACTUARIAL GAINS AND LOSSES
Changes in the value of pension fund assets or liabilities arising from differences between actuarial assumptions and actual outcomes, or from changes in those assumptions.

AMORTISED COST
A method of measuring financial assets or liabilities at the amount initially recognised, adjusted for repayments, accrued interest using the effective interest rate, and any impairment or credit losses.

ASSET
Is a resource controlled by the council as a result of past events from which future economic benefits or service potential are expected to flow. Assets are categorised as either current or non-current:

- A current asset is expected to be realised, consumed, or sold within the normal operating cycle, typically within one financial year (e.g. cash and inventories);
- A non-current asset provides benefits to the council and the services it delivers for a period of more than one year.

ASSETS HELD FOR SALE
Non-current assets that are available for immediate sale and whose sale is highly probable.

BUDGET
Is a financial plan, approved by the council, setting out expected income and expenditure for a specified period. It provides a framework for managing, monitoring, and controlling the council's financial resources.

CAPITAL ADJUSTMENT ACCOUNT
An unusable reserve that records differences between how capital expenditure is charged in the accounts and how it is financed; it is not available to fund services.

CARRYING AMOUNT
The amount at which an asset or liability is recognised in the Balance Sheet after depreciation, amortisation, impairment and any revaluation.

CAPITAL EXPENDITURE
Expenditure on acquiring, constructing or enhancing non-current assets, where the benefits to the council last for more than one year.

CAPITAL FINANCING
Methods used to fund capital expenditure, including grants, third-party contributions, capital receipts and borrowing.

CAPITAL FINANCING REQUIREMENT (CFR)
The authority's total liabilities in respect of capital expenditure financed by borrowing less the provision made to meet these liabilities.

CAPITAL RECEIPTS
Proceeds from sale of non-current assets. These are restricted by law to funding capital expenditure or repaying debt.

Carrying Amount
The value at which an asset or liability is recognised in the Balance Sheet after accounting for depreciation, amortisation, impairment, and revaluation.

Cash and Cash Equivalents
Cash held by the Council and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

CIPFA
The Chartered Institute of Public Finance and Accountancy, which issues the Code of Practice governing local authority accounting.

COLLECTION FUND
A statutory account recording Council Tax and Non-Domestic Rates income and payments to precepting authorities and central government.

COLLECTION FUND ADJUSTMENT ACCOUNT
An unusable reserve that records timing differences between income recognised in the accounts and amounts required by statute to be credited to the General Fund.

COMMUNITY ASSETS
Assets held in perpetuity for the benefit of the community, such as parks and historic buildings, and which are not usually disposed of.

COUNCIL TAX
A local tax on domestic properties, collected by the Council and distributed between itself and precepting authorities.

CREDIT LOSSES (Expected Credit Losses)
The estimated losses arising from the non-repayment of financial assets, measured using a forward-looking model based on expected future conditions.

CREDITORS
Amounts owed by the council at 31 March for goods and services received but not yet paid for, together with other amounts due to third parties.

CURRENT SERVICE COST
Represents the increase in the present value of a defined benefit pension scheme liability resulting from employee service in a financial year.

DEBTORS
Amounts owed to the council at 31 March for goods and services provided but not yet paid for, plus other receivables such as accrued income and prepayments.

DEFINED BENEFIT SHEME
A pension scheme where benefits payable are determined by scheme rules and are not directly linked to contributions or investment performance.

DEFINED CONTRIBUTION SCHEME
A pension or other retirement benefit scheme into which an employer pays fixed contributions, either as an amount or a percentage of pay. The employer has no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to meet its obligations to employees in respect of their current and prior service.

DEPRECIATION
A systematic allocation of the depreciable amount of a tangible non-current asset over its useful economic life, reflecting the consumption of the asset's economic benefits over time.

EARMARKED RESERVES
Amounts set aside for specific purposes, such as funding particular projects or, managing identified risks.

EVENTS AFTER THE BALANCE SHEET DATE
Events occurring between the Balance Sheet date and the date the accounts are authorised for issue, which may require adjustment or disclosure.

FAIR VALUE
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FINANCIAL ASSET
An asset that is cash, an equity instrument of another entity, or a contractual right to receive cash or another financial asset.

FINANCIAL INSTRUMENT
A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT
An unusable reserve that absorbs the timing differences arising from the application of financial instruments accounting standards.

GENERAL FUND
This is the main revenue account of the council and includes the net cost of all services (except council housing) financed by local taxpayers and government grants.

GOING CONCERN
The assumption that the entity will continue in operational existence for the foreseeable future.

HOUSING REVENUE ACCOUNT (HRA)
This is a statutory account that shows all income and expenditure relating to the provision, management and maintenance of the council's housing stock. Under the Local Government and Housing Act 1989, this account is kept separate from the General Fund.

IAS19 EMPLOYEE BENEFITS
Requires that the cost of providing employee benefits is recognised in the financial statements in the period in which employees earn those benefits, rather than when they are paid. It applies to all forms of employee benefits, including wages, pensions, and other post-employment benefits.

IMPAIRMENT
A reduction in the carrying amount of a non-current asset resulting from a decline in its recoverable amount below its carrying value. This may arise from factors such as physical damage, obsolescence, changes in market conditions, or reduced demand for the asset's services.

INDEXATION
The process of adjusting the carrying amount of property, plant and equipment by applying relevant price indices to reflect changes in market prices or construction costs, where such adjustments are made outside of formal asset valuations.

INFRASTRUCTURE ASSETS
Non-current assets that form part of a network or system, such as highways, street lighting, and footpaths. They are usually inalienable, are not normally capable of being sold, and have long but finite useful economic lives.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
Accounting standards issued by the International Accounting Standards Board (IASB). Local authorities are required to prepare their financial statements in accordance with IFRS, as adapted and interpreted by the CIPFA Code of Practice on Local Authority Accounting.

INVESTMENT PROPERTIES
Land and buildings held primarily to earn rental income or for capital appreciation, rather than for operational use.

INVENTORIES
Inventories comprise assets held for sale in the ordinary course of business, assets in the process of production for sale, and materials or supplies to be consumed in the production process or in delivering services. These include consumable stores, raw materials, work in progress, and finished goods.

LEASE
A contract that conveys the right to use an asset for a period of time in exchange for payment.

LEASE LIABILITIES
The amounts recognised in the Balance Sheet representing the present value of future lease payments that the council is required to make as a lessee under lease arrangements.

LEVIES

Payments made by local authorities to external levying bodies, such as the Environment Agency, Lee Valley Park Authority, and London Pension Fund Authority. The costs of these bodies are apportioned between local authorities within the area, typically based on an agreed method such as the Council Tax base and are charged to the General Fund.

MINIMUM REVENUE PROVISION (MRP)
The minimum amount which must be charged to the revenue account each year and set aside as provision for credit liabilities, as required by the Local Government Act 2003.

NON-DOMESTIC RATES (NDR)
A tax on business properties collected by the Council and shared with central government and the Greater London Authority.

NET BOOK VALUE
Represents the carrying amount of a non-current asset in the Balance Sheet, calculated as its historical cost or revalued amount less accumulated depreciation and any accumulated impairment losses.

NET REALISABLE VALUE
The estimated selling price of an asset in the ordinary course of business, less the estimated costs of completion and the costs necessary to make the sale.

NON-OPERATIONAL ASSETS
Non-current assets held by the council that are not used directly in the provision of services.

OPERATIONAL ASSETS
Non-current assets held and used by the council in the direct provision of services.

PERFORMANCE OBLIGATION
A promise in a contract with a customer to transfer a distinct good(s) or service(s), to the customer. Revenue is recognised when the performance obligation is satisfied.

PUBLIC WORKS LOAN BOARD (PWLB)
A statutory body within the UK Debt Management Office that provides loans from central government funds to local authorities to support the financing of capital expenditure.

PRIVATE FINANCE INITIATIVE (PFI)
Method of procuring public infrastructure through a partnership with the private sector, where the private sector designs, builds, finances, and operates assets, and the council makes payments over the life of the contract.

PRECEPT
Amounts collected by the Council on behalf of other authorities, such as the Greater London Authority.

PROVISIONS
Liabilities of uncertain timing or amount that arise from past events, where there is a present obligation and it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)
Represents expenditure that does not result in the acquisition or enhancement of a non-current asset for the council but is classified as capital expenditure under statutory provisions. It is charged to the Comprehensive Income and Expenditure Statement as it is incurred, with the cost funded from capital resources. i.e. Disabled Facilities Grants, Grants to Housing Associations.

RELATED PARTY TRANSACTION
Transactions between the Council and parties where one has control or significant influence over the other.

RESERVES
These represent amounts accumulated from past surpluses or deficits held by the council. These may include earmarked reserves set aside for specific purposes, such as funding future initiatives or managing identified risks and liabilities. Reserves are classified as either usable or unusable; unusable reserves arise from accounting adjustments and cannot be used to fund services.

REVALUATION RESERVE
An unusable reserve holding gains arising from increases in asset values.

REVENUE EXPENDITURE
Expenditure incurred in the provision of services within the financial year, including costs such as employee expenses, operating costs, and charges for the use of assets. It does not result in the creation of a non-current asset.

REVENUE SUPPORT GRANT (RSG)
A grant paid by central government in aid of local authority services in general as opposed to specific grants that may only be used for specific purposes.

RIGHT OF USE ASSET
An asset recognised by the lessee in the Balance Sheet, representing the right to use an underlying asset for the duration of a lease agreement.

TRANSACTION PRICE
The amount of consideration that the council expects to be entitled to under a contract with a customer in exchange for transferring promised goods or services.

USEFUL LIFE
The period over which an asset is expected to provide benefits or service potential.

Agenda Item 9

Meeting Name:	Audit, Governance and Standards Committee
Date:	8 September 2026
Report title:	Annual Governance Statement 2025-26
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	n/a

RECOMMENDATION

1. That the Audit, Governance and Standards committee approve the Annual Governance Statement (AGS) 2025-26 as attached at Appendix 1.

BACKGROUND INFORMATION

2. The Accounts and Audit Regulations 2015 require that the annual governance statement be presented to and approved by an appropriate committee of the council. Under the constitution, the audit, governance and standards committee is the body that formally receives and approves the annual governance statement.

3. The 2015 Regulations require the annual governance statement to accompany the signed and dated accounts and to be approved alongside the statement of accounts. The draft Annual Governance Statement 2025-26 was presented to the audit, governance and standards committee in July 2026. At that meeting, it was recommended that anchor institutions be included as council partners, and this amendment has now been made.

4. The draft was shared with the council's external auditors, KPMG, who reviewed it and confirmed that there were no matters that appeared unusual or required further investigation, and that no compulsory requirements of the CIPFA/SOLACE Delivering Good Governance in Local Government Code appeared to have been omitted. KPMG also suggested, as a matter of best practice, that the council may wish to include further reference to how conflicts of interest are managed and how good quality data is ensured for decision-making; this has been added at paragraph 3.11 of the Annual Governance Statement.

5. Following this approval, the annual governance statement should be signed by the most senior member of the council and most senior officer, who are the leader of the council and the chief executive.

KEY ISSUES FOR CONSIDERATION

6. Every year, each local authority is required by law to conduct a review of the effectiveness of its system of internal control and to publish a statement reporting on the review, the annual governance statement, with its financial statements.

7. The annual governance statement is therefore a mandatory statement that recognises, records and publishes the council's governance arrangements as defined in the CIPFA/SOLACE framework for good governance in local authorities. It reflects how the council conducts its business, both internally and in its dealings with others. Its objective is to provide assurance on the effectiveness of the corporate governance arrangements and to identify significant governance issues requiring management action.

8. The statement has been produced following a review of the council's governance arrangements and system of internal control. The review includes an evaluation of the council's governance arrangements against the CIPFA/SOLACE framework and considers the arrangements in place for establishing statutory obligations and organisational objectives, identifying principal risks, evaluating key controls, and obtaining assurance on the effectiveness of those controls.

9. Assurance is obtained throughout the year through internal and external audit and inspection reports, risk management, performance management and other review activity. The Corporate Management Team reviewed the draft statement in May 2026, and the draft was subsequently considered by the audit, governance and standards committee in July 2026. The council's external auditors, KPMG, have viewed the draft report. The final statement is now brought back for approval and, subject to that approval, will be signed by the leader of the council and the chief executive.

Policy framework implications

10. There are no policy implications in the proposals in this report.

Community, equalities (including socio-economic) and health impacts

Community impact statement

11. This report is not considered to contain any proposals that would have a significant impact on any particular community or group.

Equalities (including socio-economic) impact statement

12. There are no direct equalities implications in the proposals in this report.

Health impact statement

13. There are no direct health implications in the proposals in this report.

Climate change implications

14. There are no direct climate change implications in the proposals in this report.

Resource implications

15. There are no direct resource implications in this report.

Consultation

16. No consultation was required for this report.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix 1	Annual Governance Statement 2025-26

AUDIT TRAIL

Lead Officer	Tim Jones, Director of Finance		
Report Author	Geraldine Chadwick, Assistant Director of Finance (Corporate)		
Version	Final		
Dated	26 August 2026		
Key Decision?	No		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER			
Officer Title		**Comments Sought**	**Comments Included**
Director of Law and Governance		No	No
Strategic Director, Resources		No	No
Executive Member		No	No
Date final report sent to Constitutional Team			26 August 2026

Appendix 1

Annual Governance Statement 2025-26

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Executive Summary

This Annual Governance Statement (AGS) sets out how Southwark Council has reviewed the effectiveness of its governance arrangements during the financial year 2025–26 and the actions in place to maintain and strengthen good governance. The Council's governance framework is assessed as operating effectively and remains fit for purpose, providing reasonable assurance that key risks are identified, managed and monitored.

Assessment of effectiveness: the evidence supporting this overall opinion is set out through the council's assurance arrangements (Table 1), based on the established 'three lines' framework (management controls; risk and compliance; and independent internal audit and external assurance), and the Assurance Pathway (paragraphs 3.51–3.52), with the Council's formal assurance statement in the Assurance Statement section (paragraphs 3.53–3.55).

Progress against the issues highlighted in the 2024–25 AGS is summarised in Table 4, including actions, timelines and oversight routes. Key areas progressed during 2025–26 include delivery of the Housing Improvement Plan following the Regulator of Social Housing judgement (November 2024) alongside Cabinet agreement of the Good Landlord Plan (July 2025) and further work to strengthen housing governance and resident oversight, with a Resident Advisory Panel planned towards the end of 2026–27. Housing financial sustainability remains a key focus through delivery of the Housing Revenue Account (HRA) Recovery Plan and strengthened governance and reporting. The council also strengthened governance of Tenant Management Organisations (TMOs) through establishment of a dedicated TMO Governance Team (November 2024). Other areas addressed are the reporting on climate action (annual climate reports to Cabinet and Council Assembly in February 2025 and February 2026); continuation of cost-of-living support through the Household Support Fund in 2025–26 and preparations for transition to the new three-year Crisis and Resilience Fund; maintained mitigations for cyber security risk with quarterly reporting; and continued activity to address financial sustainability risks in maintained schools and SEND.

Looking forward, the Council has identified governance risks and areas requiring enhanced oversight during 2026–27 and the medium term (Table 5). A key driver is the macro-economic outlook and reduced local government funding, alongside demand and cost pressures—particularly in housing (including temporary accommodation) and social care—and cost pressures from inflation and financing. Financial sustainability and delivery of savings plans are therefore central: the Medium Term Financial Strategy (extended to 2029–30) and the council's transformation portfolio are closely aligned, and governance of transformation and benefits realisation will be strengthened further to manage the risk of slippage in delivering required cashable savings (including £10m transformation savings by 2026–27). In addition, the council will continue preparations for funding reform through the Fair Funding Review and manage the implementation of statutory changes under the

Procurement Act and the National Procurement Policy Statement, embedding proportionate, risk-based procurement and contract management governance. Major programmes, including Southwark360 (scheduled to complete by October 2027), will continue to be overseen through established programme boards and corporate governance routes, with assurance drawn through the Table 1 framework.

The local elections in May 2026 resulted in the council operating under no overall control, representing a change in the council's governance context for 2026–27. A joint administration was subsequently formed by the Green Party and Liberal Democrats. The governance arrangements were updated accordingly. Decision-making continues through the council's established constitutional framework.

This AGS accompanies the council's Statement of Accounts and is approved by those charged with governance. It is signed by the Chief Executive and the Leader of the Council, with the approval date recorded in the conclusion section. The Statement has been prepared to meet the requirements of the CIPFA/SOLACE *Delivering Good Governance in Local Government* Framework and the May 2025 Addendum, including clear articulation of the assurance framework and evidence base, a transparent governance pathway for review and approval, and identification of improvement actions and forward-looking governance risks.

The accompanying Assurance Statement (paragraphs 3.53–3.55) provides the Council's formal statement on the effectiveness of the governance framework and system of internal control during 2025–26 and up to the date of approval.

Introduction

1.1 Southwark Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It needs to ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. To achieve this the council must ensure that it has a governance framework that supports a culture of transparent decision making.

1.2 The Accounts and Audit Regulations (2015), as amended by the Accounts and Audit (Amendment) Regulations 2021, require the council to conduct a review, at least once a year, on the effectiveness of its system of internal control and include an Annual Governance Statement reporting on the review, with the Statement of Accounts.

The principles of good governance

2.1 The CIPFA/SOLACE *Delivering Good Governance in Local Government* Framework remains the sector's core standard for defining and assessing good governance in local government. The May 2025 Addendum represents the first update to the Framework since 2016 and reaffirms the requirement for Annual Governance Statements to be consistent with the seven principles of good governance. CIPFA's recently published *International Framework: Good Governance in the Public Sector* (2026) also reinforces the importance of good governance across the public sector, providing an overarching international perspective that is applicable beyond local government.

2.2 The updated guidance reflects the significant pressures local authorities have faced in recent years. Funding constraints, innovative and more commercial service models, and the enduring impacts of the COVID-19 pandemic have required councils to take complex and sometimes difficult decisions. In this context, strong governance arrangements are essential to ensure that decisions are taken with high-quality information, a clear understanding of risk, and sustained engagement with communities and stakeholders.

2.3 Good governance must also support effective implementation of decisions and provide sufficient assurance to those charged with governance. The Addendum emphasises that robust governance requires adequate capacity, capability and strong leadership, underpinned by long-term planning rather than short-term fixes. All seven governance principles must be demonstrably fit for purpose.

The 7 Core principles of the CIPFA/SoLACE framework



2.4 National governance reviews — including Section 114 notices, Public Interest Reports and other interventions — show that governance has not always met the required standards. Common weaknesses identified include:

- organisational cultures that do not consistently follow due process, the constitution or codes of conduct,
- leadership losing sight of core purpose or the public interest,
- inadequate understanding or management of risk,
- weaknesses in internal controls,
- insufficient oversight and challenge from those charged with governance,
- dysfunctional relationships between senior officers and members,
- reduced capacity or capability in critical service and corporate areas,
- poor data quality underpinning decision-making,
- limited oversight of arm's-length arrangements, trading companies and joint ventures,
- a lack of self-assessment or continuous improvement, and

- a lack of transparency or openness to external challenge.

2.5 In some cases, authorities have not recognised or acknowledged where their governance is not fit for purpose. This undermines accountability to the public and can delay early corrective action, increasing the likelihood of more serious service or financial failures. It is in this context that the updated Framework should now be applied. The Addendum provides an opportunity for authorities to reconnect with the principles that underpin strong governance. This assessment will follow this framework and consider both current demands and future challenges, so that the council's governance arrangements are sufficiently resilient to adapt and respond.

Key elements of the council's governance arrangements

3.1 The governance framework at Southwark Council comprises the systems and processes, culture and values which the council has adopted to deliver on the above principles. The council has a separate code of governance, which is consistent with the principles of the CIPFA/SoLACE framework (2016). This has been updated, and the revised code was reported to the audit, governance and standards committee in February 2024. The Local Code of Governance[1] is published on the council website. Following the local elections, a new Code is currently being reviewed and this review will take place annually as part of the Council's annual governance review and AGS process. Any updates where required will reflect changes to governance arrangements and emerging good practice. Corporate governance describes how the Council ensures that it does the right things, in the right way, for the right people, in an open, ethical and accountable manner. It encompasses the systems and processes, as well as the culture and values, through which the Council is directed and controlled and through which it leads, engages with and accounts to its communities. Southwark Council is committed to maintaining the highest standards of corporate governance, recognising that effective governance underpins strong leadership, sound decision-making, value for money, transparency, public trust and improved outcomes for residents.

3.2 The council's governance arrangements are aligned to the CIPFA/SoLACE Delivering Good Governance in Local Government framework and are built around seven core principles of good governance. These principles ensure that the council fulfils its overall purpose, achieves intended outcomes for citizens and service users, operates in an effective and ethical manner, manages performance and risk appropriately, safeguards public money, engages openly with stakeholders, and delivers sustainable outcomes for the communities it serves. Based on the annual review and evidence sources set out in this AGS, the council is satisfied that the core arrangements are in place and operated effectively during 2025–26. Specific improvement and actions plans are set out in Table 4.

3.3 The CIPFA Advisory Note, 'Developing an effective assurance framework in a local authority' (December 2023) defines an assurance framework as (Figure 1):

[1] Code of corporate governance | Southwark Council

'The means by which leaders, managers and decision makers can have confidence that the governance arrangements that they have approved are being implemented, operating as intended and remain fit for purpose.'

Figure 1: Establishing an effective assurance framework.



Assurance Arrangements

3.4 Southwark operates a comprehensive assurance framework based on the established "three lines" model (Table 1). This sets out how the leadership team gains assurance over the adequacy and effectiveness of governance, risk management and internal control. Assurance is drawn from management and performance arrangements, corporate risk and compliance functions, and independent internal audit.

Table 1: Assurance Framework

Assurance provider	Scope of assurance and outputs
First line – Management	Internal Management Processes and controls. Statutory roles. Regular review of the Constitution. Risk Management Strategy. Departmental Schemes of Management.
Second line – Risk & Compliance	Assurance Statements. Corporate Risk Management. Arrangements for management of risk against fraud.
Third line – Internal Audit	Risk-based plan; annual opinion. follow-up and thematic work. conformance with GIAS and CIPFA IA Governance Code.
External assurance & inspection	External audit. Regulator of Social Housing. Peer challenge. Benchmarking.
Those charged with governance	Council assembly agreeing the Council Delivery Plan; Performance monitoring by Members and Chief Officers; Cabinet/Executive; Audit, Governance & Standards Committee; Overview & Scrutiny committee.

First Line - Management

3.5 As set out in Table 1, the first line of assurance is provided through management ownership of risks and the day-to-day operation of internal controls. This includes statutory officer responsibilities. The Council confirms that the Monitoring Officer and the Head of Paid Service are in post and discharge their statutory functions. Their annual assurances on lawfulness, standards and ethics, organisational effectiveness and governance inform the Annual Governance Statement review. The council worked closely with a range of anchor institutions and strategic partners across the borough to support delivery of Southwark 2030. Through these partnerships the council promotes inclusive growth, local employment opportunities, social value, community wellbeing and coordinated action to improve outcomes for residents.

3.6 The council's internal management processes provide first-line assurance through routine performance and financial management, people management and compliance activity. Key arrangements include: regular performance monitoring and reporting; the staff performance appraisal framework; internal communications and surveys to test awareness of corporate policies; monitoring of key policies (including corporate complaints and health and safety); and the corporate budget setting and budget monitoring processes.

3.7 The council keeps its constitution and decision-making framework under regular review to support clarity, openness and transparency. Key protocols and procedures are refreshed on a planned basis. A clear scheme of delegation and Departmental Schemes of Management are in place to ensure decisions are taken in an open and transparent manner, with clear accountability from Cabinet Members during 2025–26 and Executive Members from June 2026, alongside Chief Officers and delegated responsibilities for council officers, supported by published decision records. Informal governance also supports effective management by developing proposals, monitoring performance and shaping strategy before items progress through formal decision-making and governance processes.

3.8 The council's constitution is updated throughout the year and sets out how the council operates. It states what matters are reserved for decision by the whole council, the responsibilities of Cabinet during 2025–26 and of the Executive from June 2026, the matters reserved for collective and individual decision, and the powers delegated to panels, committees and community councils. Decision-making powers not reserved for councillors are delegated to chief officers and heads of service. The Monitoring Officer ensures that decisions are lawful and supports the Audit, Governance and Standards Committee in promoting high standards of conduct amongst Members.

3.9 The council demonstrates openness and transparency, and that it is acting in the public interest, through an up-to-date Constitution, clear arrangements for delegation of functions, and active Overview and Scrutiny and Audit, Governance and Standards Committee arrangements. The council also maintains a published Forward Plan. All council meetings are open to the public and are live-streamed. In addition, all elected Members are required to keep their register of interests and gifts and hospitality register up to date, and officer declarations are undertaken annually. In 2024, the council reviewed its decision-making processes and report writing guidance

to strengthen transparency and reviewed its call-in procedures to allow any five Members of the council to call in a decision.

3.10 The council welcomes views from the public and community as part of the constitutional process. These views are considered through formal and informal consultation processes, through ward forums, attendance at local meetings or contact with a local ward councillor. Trades unions are consulted on issues that affect council staff.

3.11 Specific examples of internal management arrangements that support governance assurance include:

- The council's financial management arrangements conform to the governance requirements set out in CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government* (2016). The statutory Chief Financial Officer (Strategic Director of Resources) provides corporate leadership on financial management and formally devolves responsibilities through the Scheme of Delegation and Departmental Schemes of Management. These arrangements are supported by finance regulations, procedures, guidance and training to promote consistent application, with budget monitoring embedded through regular reporting to Cabinet during 2025–26 and to the Executive from June 2026. Compliance with the CIPFA Financial Management Code is assessed annually and reported to the Audit, Governance and Standards Committee.
- The Council has established arrangements to identify, declare and manage conflicts of interest. Members and officers are required to comply with the relevant Codes of Conduct and declaration of interest requirements, with officers required to complete declarations of interest through the Council's corporate process. Declarations are reviewed by managers and, where necessary, mitigating actions are agreed to address actual, potential or perceived conflicts of interest, helping to ensure that decisions are taken impartially, transparently and in the public interest.
- The Council has governance arrangements in place to support high quality information and evidence-based decision making. Reports presented for decision are subject to review through established governance processes and are required, where relevant, to include financial and legal implications, procurement considerations, social value impacts, performance information, benchmarking and other supporting evidence. This provides decision makers with robust, relevant and reliable information to support informed decisions and effective stewardship of public resources.
- The council's risk management framework supports effective decision-making by ensuring that risks to the delivery of corporate priorities are identified, assessed and managed. Day-to-day internal controls, including authorisation, reconciliation and separation of duties, help mitigate the risk of fraud or error. Robust arrangements are in place to manage fraud and corruption risks, supported by a strong counter-fraud culture and ongoing vigilance.
- Partnership and collaborative working is governed through appropriate agreements, protocols or memoranda of understanding, developed with legal and procurement input to ensure arrangements are fit for purpose and protect the council's interests. Governance, risk and control expectations also extend to arm's-length bodies, trading companies and partnerships, with proportionate oversight and assurance frameworks in place.

- The council expects high standards of conduct and professional behaviour from both Members and officers. Standards are defined through codes of conduct, protocols and related guidance, and are reinforced through ongoing governance, ethics and standards arrangements.
- Learning and development is supported through a comprehensive programme for Members and officers. The performance management framework identifies development needs and informs personal development plans, while senior officers are expected to maintain professional knowledge and stay abreast of relevant sector and regulatory developments.
- The council maintains a whistleblowing policy that encourages staff and other stakeholders to report concerns about unlawful conduct, financial malpractice, or actions that pose risks to the public or the environment. Whistleblowing cases, Member complaints and matters arising under the Regulation of Investigatory Powers Act (RIPA) are reported annually to the Audit, Governance and Standards Committee.

Second line - Risk and Compliance

3.12 As set out in Table 1, the second line of assurance is provided through corporate risk, compliance and specialist oversight functions that support and challenge management, helping ensure that controls are designed appropriately and operating as intended.

Annual Management Assurance Statements

3.13 The Annual Management Assurance Statement provides a key element of second-line assurance. It is signed each year by Strategic Directors and confirms that departmental governance arrangements are in place and operating effectively, including compliance with the Constitution and schemes of management; management of key risks and controls; and monitoring of performance and delivery. The assurance statement includes information on specific requests arising from the external audit VfM report. Each department maintains a business plan and a Scheme of Management that clarifies internal procedures and accountability. Departmental business plans are aligned to the Corporate Delivery Plan, and the assurance statements support corporate consolidation and escalation of significant issues through established governance routes.

Corporate risk Management

3.14 Corporate risk management provides second-line oversight of the council's most significant risks. The annual report on corporate risk and risk management arrangements was presented to the Audit, Governance and Standards Committee on 3 February 2026 for discussion. The corporate risk register is developed through joint assessment of departmental risks and is reviewed by the Corporate Management Team. Departments review their risk registers at least quarterly. Each risk is supported by a mitigation plan that sets out the controls in place, ownership, and planned actions to manage the risk.

The main purposes of the council's corporate risk management process are to:

- To set out the most significant risks to the council in the context of multiple risks identified and managed within each department.
- Where appropriate, to consolidate common risks issues especially where cumulatively they may amount to a higher risk rating.
- To ensure that single risks that may act to impact across all council services are recorded (e.g. cyber security).
- To enable risks to be effectively managed to ensure that the council meets its corporate and business objectives; and
- To alert the council to new or increasing risks that may impact on the council's ability to serve its residents and wider community.

3.15 During 2025–26 the council refreshed its risk management framework and strengthened the supporting assurance framework. The assurance framework provides a structured approach to identifying and mapping the main sources of assurance over the risks that could affect delivery of strategic objectives and helps identify any gaps or duplication in assurance coverage. It draws together sources of assurance across the 'three lines of defence':
(i) operational management and day-to-day controls;
(ii) corporate oversight and compliance functions; and
(iii) independent assurance, including internal audit and other independent reviews.

3.16 The top risks are those that have been assessed as 'amber' or 'red' and appear in more than one department and often require the most proactive management actions to control and mitigate these risks. The number of risks across all council departments is slightly higher than those reported in February 2025 and are listed in Table 2.

Table 2: 2025-26 Risk Register

Southwark 2030 Priority	Risk Description
Decent Homes for All	Housing Revenue Account (HRA) Financial Sustainability
	Asset Management and Building Safety
	Temporary Accommodation
A Healthy Environment	Climate Emergency
A Good start to Life	Schools and Education
A Strong and Fair economy	Acute Socio-economic Factors
	Cost of Living Crisis

Staying well	Health and Well-Being
Safer Southwark	Crime and Antisocial Behaviour
	Building Safety and Compliance
Cross cutting across Southwark 2030 objective/other corporate risks	Cyber security, IT, Data and Information Management
	Recruitment, retention, resources and capacity
	Medium Term Financial Planning
	Key Providers and Partners
	Capital Programme and Major projects
	Unforeseen Major event
	Health and Safety

Management of Risk of Fraud and corruption

3.17 The Council maintains best-practice arrangements for managing the risk of fraud and corruption, aligned to CIPFA's *Code of Practice on Managing the Risk of Fraud and Corruption* (2014) and other relevant good practice (including *Fighting Fraud and Corruption Locally* and Government Functional Standard GovS 013: Counter Fraud). These arrangements reinforce a zero-tolerance approach and include:

- a clear counter-fraud and anti-corruption policy framework, roles and responsibilities;
- regular fraud risk assessment aligned to the corporate risk register and service risk registers;
- proactive data matching, intelligence-led activity and targeted preventative work;
- effective reporting routes (including whistleblowing) and timely investigation, recovery and sanctions where fraud is identified; and
- management reporting and governance oversight, using outcomes and lessons learned to strengthen controls, awareness and capability.

Third Line - Internal audit

3.18 As set out in Table 1, the third line of assurance is provided by Internal Audit, which delivers independent and objective assurance to those charged with governance on the adequacy and effectiveness of the council's governance, risk management and internal control arrangements. Internal audit work contributes to strengthening both local service arrangements and corporate controls by identifying control weaknesses, agreeing management actions and following up delivery. The internal audit plan is risk-based: it uses the council's risk management process and corporate risk register as a starting point (reflecting the council's assessment of risks to delivering its strategic objectives), is agreed with senior management, and is updated where appropriate to reflect emerging risks affecting local government and the wider public sector.

3.19 To fulfil its purpose, internal audit performs its work in accordance with the Global Internal Audit Standards in the UK Public Sector, which encompass: the global Institute of Internal Auditors (IIA) Global Internal Audit Standards (GIAS) and the Internal Audit Standards Advisory Board (IASAB) Application Note Global Internal Audit Standards in the UK Public Sector. For local government, the Council's assurance arrangements reflect the governance requirements of CIPFA's '*Code of Practice for the Governance of Internal Audit in UK Local Government* (2025)'. The Head of Internal Audit (HIA) reports functionally to the Audit, Governance and Standards Committee. The Committee approves the internal audit strategy and risk-based audit plan and receives reports during the year on internal audit activity (including follow-up work).

3.20 The Chief Audit Executive provides an annual report and opinion to Members on the overall adequacy and effectiveness of the Council's governance, risk management and internal control framework. For 2025–26, the overall opinion was 'Generally satisfactory with improvements required in some areas'. This means that the areas examined were found to be suitably designed and operating effectively to support the relevant risk management, control and governance arrangements, but that improvements are required in some areas to strengthen consistency and effectiveness across services.

3.21 Conformance to GIAS and the CIPFA Code of Practice on the Governance of Internal Audit is supported through the Quality Assurance and Improvement Programme (QAIP), including a programme of internal quality reviews and an agreed timetable for external quality assessment. The Chief Audit Executive contributes independent assurance but does not draft the Annual Governance Statement.

3.22 From March 2026 the council entered a shared internal audit service with Lambeth council. There is now a single Chief Audit Executive for both councils and internal audit is currently delivered in-house through the shared service. Both boroughs will continue to be supported by the current co-sourcing partner (BDO) through 2026-27 during which time the Chief Audit Executive will recruit additional in-house staff to deliver internal audit activity.

External assurance and Inspection

External Audit

3.23 The council is part of the Public Sector Audit Appointments (PSAA) national scheme which appoints the council's external auditors. KPMG was appointed to act as the external auditors for five years from 2023–24, replacing the previous auditors, Grant Thornton. Despite significant national delays in the external audit market for signing off local authority accounts and issuing disclaimer opinions where audits have not been completed within statutory deadlines, the council's audited accounts are up to date. The council's 2024–25 accounts were signed off in February 2026. The 2025–26 external audit has already begun and is expected to be completed by October 2026 so that the audited accounts can be signed off at the November 2026 Audit, Governance and Standards Committee.

3.24 The findings of the VfM report last year were addressed as follows:

Table 3 Findings from the External Audit Value for Money (VfM) report

From the External VfM report	
Performance monitoring and KPIs	3.37-3.41
Transformation Programmes	5.7-5.12
Sustainability of the Housing Revenue Account (HRA)	4.23-4.26
Regulator of Social Housing and assurance over major works	4.14-4.20
Management of the TMOs	4.21-4.22
Contracts	5.16 -5.20
Risk Management	3.14-3.17
Leisure services Performance management	4.39-4.43.

External Assurance

3.25 External assurance and inspection provide an important additional source of independent challenge and helps ensure that the council's governance arrangements remain fit for purpose. CIPFA's advisory note *Developing an effective assurance framework in a local authority* highlights the importance of encouraging and facilitating robust challenge. During 2025–26, this continues to be supported through the progress review from the Local Government Association (LGA) Corporate Peer Challenge (CPC) which provides external assurance on the council's governance arrangements and constructive challenge to strengthen the council's approach.

3.26 In October 2023, the council welcomed an LGA peer team to undertake a CPC, providing an independent assessment of organisational leadership, governance, performance and financial management. The peer team reviewed a range of evidence, including finance, performance and governance information, and met with Members, officers and partners. Their feedback report set out 11 recommendations to build on strengths and address areas for improvement. The council consolidated these recommendations into an action plan agreed by Cabinet in February 2024, grouped under three strategic themes:

- Strategic direction of the council
- Service specific improvements
- Future Southwark capacity and corporate infrastructure

3.27 In May 2025, the LGA returned to Southwark to undertake a progress review. This assessed delivery against the CPC recommendations, provided feedback on progress made, and highlighted where further work is required to build on strengths and continue improving outcomes for residents, staff and partners.

3.28 The progress review highlighted several improvements since October 2023, including:

- Agreeing the Southwark 2030 strategy at Council Assembly in November 2024, providing clearer strategic direction for the Council.
- Agreeing the Southwark 2030 Delivery Plan at Cabinet in February 2025, setting out consolidated priorities for the following financial year and providing greater clarity on delivery over the short and longer term.
- Implementing a comprehensive Housing Improvement Plan following the C3 judgement issued by the Regulator of Social Housing (RSH) in November 2024.
- Delivering the first phase of the Council's Future Southwark internal change programme.
- Strengthening the corporate centre through improvements to core functions, including Public Affairs, Communications, and the Change and Transformation teams.

The Progress Review[2] report is publicly available on the LGA and Southwark Council websites

3.29 Overall, the peer team reported that clear improvement was evident across the issues highlighted in October 2023. They concluded that the council has responded positively to the recommendations, strengthening corporate working and improving clarity of strategic direction. They also noted strong commitment—individually and collectively—to achieving better outcomes for residents. Where recommendations require longer-term or ongoing action, delivery has been embedded within business-as-usual activity and will continue through the council's wider transformation programmes.

External benchmarking (CIPFA Financial Management Code and Financial Resilience Index)

3.30 The Council has reviewed its compliance with the CIPFA Financial Management Code (FM Code) for 2025–26, with the outcome to be reported to the Audit, Governance and Standards Committee in July 2026. The FM Code provides a consistent framework for assessing the effectiveness of financial management arrangements, supporting financial resilience, the management of service pressures, and preparedness for financial shocks.

3.31 As part of this review, the council completed the 2025 CIPFA Financial Resilience Index, which draws on national revenue outturn data and external assurance judgements. The assessment rated the council as low risk in relation to overall financial sustainability and reserves, with a positive assessment for Children's Social Care. It also identified comparatively higher-risk indicators relating to the long-term sustainability of the Housing Revenue Account (HRA) and the level of external debt. These higher risk indicators are regularly considered alongside the council's

[2] https://www.southwark.gov.uk/sites/default/files/2026-03/Corporate-peer-challenge-progress-review-report.pdf

Medium Term Financial Strategy, treasury management strategy and HRA recovery planning. Paragraphs 4.23 to 4.26 provides further discussion on the financial sustainability of the HRA and the Housing Investment Programme.

Those charged with governance

Council Assembly

3.32 As set out in Table 1, assurance is also provided by those charged with governance. In the council's context, this includes Council Assembly, the Cabinet during 2025–26 and the Executive from June 2026, the Overview and Scrutiny function and the Audit, Governance and Standards Committee, which together provide democratic leadership, oversight and constructive challenge.

3.33 Council Assembly is responsible for approving the budget, developing policies, making constitutional decisions and deciding local legislation. Following the local elections in May 2026, no political group held an overall majority on the council. A new administration was subsequently formed by the Green Party and the Liberal Democrats. Council Assembly appointed Councillor James McAsh as Leader on 28 May 2026, and the Leader appoints an Executive (including themselves), with each Executive Member holding a special portfolio of responsibility.

3.34 The council's overarching budget and policy framework is set by Council Assembly, and decisions are taken within that framework. At the start of the 2022–2026 term, the *Fairer, Greener, Safer*[3] Delivery Plan 2022–2026 provided the Council's main delivery framework. Following agreement of the Southwark 2030 strategy, Cabinet approved *Creating Good Lives Together: Southwark 2030 Delivery Plan*[4] in February 2025 to translate the longer-term strategy into priorities and actions. Taken together, these plans set out what the council aims to achieve during the 2022–2026 term and how delivery is being embedded within a longer-term vision for Southwark.

3.35 Southwark 2030 was organised around six goals, plus an internal goal to ensure Southwark is a well-run council:

1. Decent homes for all: People live in safe, well-maintained homes.
2. A good start in life: Children and young people have a great childhood that builds a solid foundation for adult life.
3. A safer Southwark: Crime is low and people feel safe.
4. A strong and fair economy: We all benefit from Southwark's economic strength and growth.
5. Staying well: People across our community have good health and wellbeing.
6. A healthy environment: Our environment is clean, green and healthy.

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[3] https://www.southwark.gov.uk/about-council/how-council-works/policies-plans-and-strategies/fairer-greener-safer-delivery-plan ↩

[4] *Creating Good Lives Together: Southwark 2030 Delivery Plan 2025–26*, Southwark Council. Available at: https://www.southwark.gov.uk/sites/default/files/2025-05/Southwark%202030%20delivery%20plan%202025%20to%202026.pdf ↩

7. A well-run council: Leading by example to deliver high-quality, accessible services that meet the needs of all residents.

3.36 Southwark 2030 was underpinned by three principles that guide the council's approach:

- Reducing inequality: We are determined to ensure everyone can access the opportunities, resources and power they need to thrive.
- Empowering people: We want to build on the strength in everyone, growing skills and resilience to enable participation and leadership.
- Investing in prevention: We will invest time, capacity and resources in early help so that residents can live empowered, healthy and fulfilling lives.

Performance Monitoring

3.37 Performance against the Council Delivery Plan (CDP) is monitored throughout the year. Progress is reviewed by Corporate Management Team (CMT), with quarterly reviews by the Leader and relevant Cabinet Members during 2025–26 and Executive Members from June 2026, and is reported publicly through the annual performance report at the end of each financial year. The CDP is kept under review to reflect legislative and statutory changes, the evolving social and economic context, analysis of need, and performance against priorities.

3.38 The Leader, alongside the Cabinet Member for Equalities, Democracy and Finance during 2025–26 and the Executive Member for Finance and General Purposes from June 2026, holds portfolio holders to account through quarterly performance discussions. These sessions provide oversight of delivery against agreed targets, the outcomes being achieved, key risks, and areas requiring support or corrective action.

3.39 Regular briefings between senior officers and the relevant Cabinet Member during 2025–26 or Executive Member from June 2026 support effective management of portfolio business and inform the quarterly performance cycle. Key issues and decisions are captured through established reporting routes, including in-year monitoring reports and the annual performance report.

3.40 On 16 March 2026, the council approved the End of Term Report 2022–2026[5], noting performance and delivery during the 2022–2026 term. The Southwark 2030 strategy, delivery plans, annual performance reports and the end of term report are published on the council's website to support transparency and accessibility. Work also continues to develop and implement a corporate performance management framework to strengthen timely, high-quality reporting and assurance on organisational performance and progress against Southwark 2030 goals. This will support a more consistent picture of organisational performance, corporate health and

[5] *End of Term Report 2022–2026*, Southwark Council. Available at: https://www.southwark.gov.uk/about-council/how-council-works/policies-plans-and-strategies/southwark-2030-strategy

effectiveness, enabling the identification of areas for focus and support and strengthening decision-making at all levels.

3.41 In addition to Executive and officer-led performance oversight, the Overview and Scrutiny function provides independent challenge. The council also triangulates performance information with resident feedback (including resident insight and satisfaction surveys, complaints and compliments) to inform service improvement and future performance and budget planning. The Council Delivery Plan is developed alongside the Medium-Term Financial Strategy (MTFS) to support effective deployment of financial, workforce, technology and other resources. The MTFS is aligned to the CDP and is updated and reported to Cabinet during 2025–26 and to the Executive from June 2026, and detailed budgets are aligned to plans through the annual budget process, with a focus on efficiency, value for money and delivery of agreed outcomes.

Overview and Scrutiny Committee

3.42 The Overview and Scrutiny function provides independent oversight and challenge of the council's decision-making and delivery, including scrutiny of performance management arrangements, policy, the budget and progress against the Council's priorities. Scrutiny commissions and reviews provide a structured route for executive and non-executive challenge, policy development and recommendations to Cabinet during 2025–26, to the Executive from June 2026, and to Council Assembly.

3.43 The council adopted a Cabinet Scrutiny Protocol in response to recommendations from the Centre for Governance and Scrutiny (CFGS)[2]. The Protocol clarified how Cabinet Members during 2025–26, Executive Members from June 2026, officers and Scrutiny work together, supporting constructive challenge, a shared understanding of roles and responsibilities, and effective scrutiny of decision-making.

3.44 The Overview and Scrutiny Committee and its scrutiny commissions scrutinise decisions made by Cabinet during 2025–26 and by the Executive from June 2026, as well as those delegated to officers, and review services provided by the council and its partners. The scrutiny officer is a statutory role and is responsible for promoting and supporting the Council's scrutiny functions. The Centre for Governance and Scrutiny was commissioned by the Council in August 2022 to undertake a health check of the scrutiny function. The findings were reported in April 2023, concluding that *'scrutiny had a good foundation in Southwark'* and making recommendations to strengthen scrutiny. The Council agreed all recommendations and implemented an improvement action plan across 2023–24 and 2024–25. The scrutiny officer is taking a lead role in implementing these actions.

Audit, Governance and Standards Committee

3.45 The Audit, Governance and Standards Committee undertakes the core functions expected of an audit committee, consistent with CIPFA's *Audit Committees: Practical Guidance for Local Authorities and Police* (2022). This includes oversight of the effectiveness of governance, risk

management and internal control, and scrutiny of internal and external audit arrangements, financial reporting and the Annual Governance Statement.

3.46 The Audit, Governance and Standards Committee provides independent oversight of key governance and accountability arrangements and is separate from the Overview and Scrutiny function and executive decision-making. The Committee's work in 2025–26 was reported in February 2026[3].

3.47 During 2025–26, the Committee undertook a formal review of its effectiveness, assessing performance against CIPFA's *Position Statement: Audit Committees in Local Authorities and Police* (2022)[4]. The Committee's work programme is designed to provide appropriate coverage of internal and external audit activity, governance and standards matters, financial reporting, and scrutiny of treasury management strategy and policies.

3.48 The Committee strengthened its approach to governance oversight by receiving structured reports and deep dives on higher-risk areas. Members asked challenging questions and raised issues on matters presented. Where required, this led to further information being provided to support assurance and, where appropriate, increased focus on delivery of agreed action plans.

3.49 Based on the reports received and the governance discussions held during the year, Members confirmed that they were assured that:

(i) the Council's risk management arrangements were adequate to identify key risks and enable appropriate understanding and management of those risks; and

(ii) there were no significant gaps or unnecessary duplication in the Council's governance arrangements that had come to the Committee's attention and not been adequately addressed.

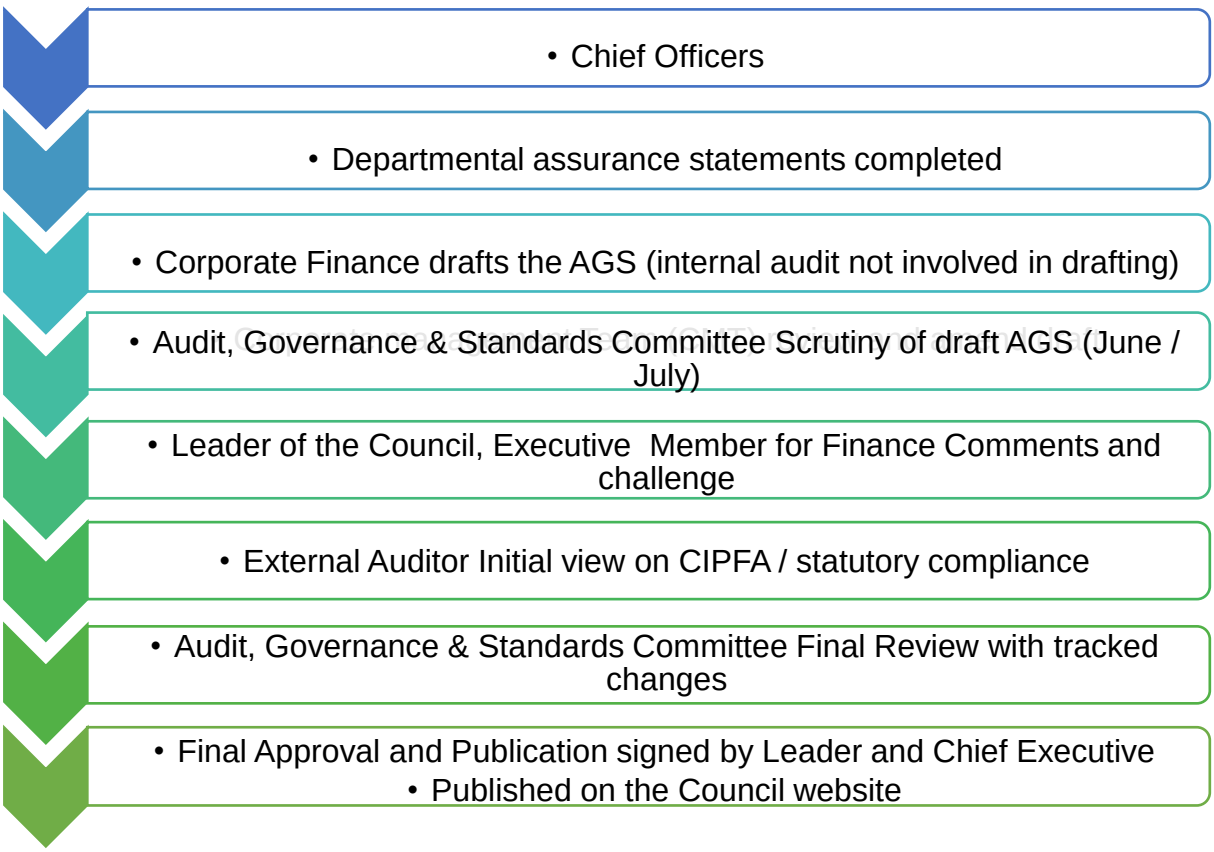
3.50 Departmental governance conversations: During 2025–26, the Committee continued to invite Strategic Directors, Assistant Chief Executives and the Chief Executive to discuss departmental governance arrangements. These sessions provided more detailed assurance on departmental risk registers, key controls and mitigations, and enabled Members to challenge specific governance issues and track progress against agreed actions.

Assurance Pathway

3.51 In line with the May 2025 CIPFA/SOLACE Addendum to *Delivering Good Governance in Local Government*, the Council has a robust and structured process for reviewing the effectiveness of its governance arrangements and agreeing the overall opinion set out in this Annual Governance Statement. Chief Officers provide formal annual assurance statements for their departments, confirming whether governance, risk management and internal control arrangements were in place and operating effectively. These assurances, together with other sources of evidence, inform the

drafting of the Annual Governance Statement, which is coordinated by Corporate Finance and is not prepared by Internal Audit, in accordance with professional standards.

3.52 The initial draft AGS is reviewed by Chief Officers through the Corporate Management Team (CMT), including the Chief Executive, to ensure collective ownership, challenge and consistency with the available assurance. Following amendments arising from this review, the draft AGS is presented to the Audit, Governance and Standards Committee in July for detailed scrutiny, with further changes made where required. The revised draft is then shared with the Leader of the Council and the Executive Member for Finance and General Purposes for comment, and provided to the Council's external auditor for an initial view on compliance with the CIPFA/SOLACE framework and statutory requirements. Any amendments arising from these stages are clearly identified and reported back to the Audit, Governance and Standards Committee prior to final approval. The Annual Governance Statement is formally approved, signed and dated by the Leader of the Council and the Chief Executive and published on the Council's website alongside the Statement of Accounts.



Assurance statement

3.53 Southwark Council is responsible for reviewing, at least annually, the effectiveness of its governance framework, including the system of internal control. The system of internal control is a significant component of that framework and is designed to manage risk to a reasonable level. However, it cannot eliminate all risk of failure to achieve policies, objectives and statutory duties and therefore provides reasonable, rather than absolute, assurance of effectiveness.

3.54 The governance framework described in this Annual Governance Statement operated at Southwark Council for the year ended 31 March 2026 and up to the date of approval of the Statement of Accounts. It is underpinned by the Council's assurance model (the 'three lines of defence') and supplemented by independent external assurance, including external audit and other external reviews and inspections.

3.55 The annual governance review provides evidence that the council's governance framework and system of internal control have operated effectively during 2025–26 and up to the approval date of the accounts. This conclusion is supported by assurance from across the three lines of defence and by independent external assurance. Taken together, these sources provide reasonable assurance that key risks are being identified, managed and monitored appropriately, and that proportionate arrangements are in place to support transparent decision-making, accountability and continuous improvement.

Governance issues

4.1 The specific governance issues are addressed in the following sections:

(i) how governance has been strengthened during 2025–26 through delivery of actions from the 2024–25 AGS and other improvement activity (Table 4), and

(ii) Looking ahead to emerging governance issues 2026-27 and beyond (Table 5).

4.2 Together, these provide a clear line of sight from the council's annual governance review to agreed improvement actions and ongoing oversight.

Issues highlighted in the 2024-25 Annual Governance Statement: Actions and Outcomes

4.3 The follow-up of the governance issues highlighted in the 2024–25 Annual Governance Statement and other improvement activity, is summarised in Table 4, with further detail set out in the narrative below.

Table 4: Summary of governance issues: Actions and Outcomes

Governance issues and improvement 2025–26	Action plans, timelines, responsibility and reference
Climate	Timelines: Annual climate report presented to Cabinet and Council Assembly (Feb 2025 and Feb 2026), including target dates for implementation. Responsibility/oversight: CMT and Members, with ongoing oversight of progress on climate action. Reference: paragraphs 4.4–4.7
Cost of Living	Timelines: 2025–26 delivery through the Household Support Fund (HSF). From 2026–27 the Crisis and Resilience Fund (CRF) replaces HSF; three-year CRF delivery plan was delivered in July 2026; transition arrangements during 2026–27. Responsibility/oversight: DWP monitoring (delivery plan and quarterly returns); Council decisions under delegated authority with Member consultation; Overview and Scrutiny. Reference: paragraphs: 4.8–4.13
Housing – Social Housing Regulator	Key milestones: Regulator of Social Housing (RSH) inspection (Nov 2024); Housing Improvement Plan implemented during 2025–26; Good Landlord Plan agreed by Cabinet (July 2025); governance/performance framework design commissioned (late 2025); Resident Advisory Panel proposed for implementation towards the end of 2026–27. Responsibility/oversight: Housing Improvement Board (supported by programme boards and resident engagement forums), reporting into the Housing Revenue Account (HRA) Recovery Board;

	Cabinet and Member scrutiny; RSH external regulation; external assurance (KPMG VfM risk report, Nov 2025). Reference: paragraphs: 4.14–4.20
Housing – Tenant Management Organisations (TMO)	Key actions/timelines: TMO Governance Team established (Nov 2024). Quarterly collection and reporting of TMO performance and compliance data. Annual risk-based audits and annual TMO governance reviews incorporating Tenant Satisfaction Measures (TSMs). Ongoing monitoring of TMOs' AGMs. Quarterly bank statement checks and regular review of Management Committee finance reports. TMOs submit annual audited accounts (filed with Companies House or FCA) and copies provided to the Council. Responsibility/oversight: TMO Governance Team and TMO Data Analyst; reporting to Landlord Services Management Team, Housing Department Senior Management team and Cabinet Member for Council Homes. Regular reporting to Housing Scrutiny Committee and Audit, Governance and Standards Committee. Independent oversight and scrutiny by external auditor (BDO). Supported by governance training/capacity building and use of the TMO Governance and Monitoring App. Reference: paragraphs 4.21–4.22
Housing – Housing Revenue Account	Timelines (2025–26 to 2026–27): Deliver 2025–26 cash limits and in-year savings (monitored by HRA BRB). Audit, Governance and Standards Committee update (19 Nov 2025). HRA BRB in-year monitoring (Mar 2026) flagged £2.5m forecast overspend. Cabinet agreed 2026–27 framework (Feb 2026) and HRA BRB reviewed detailed budget build/risks (April 2026), including £8.25m savings requirement. Responsibility/oversight: HRA BRB; dashboards to Audit, Governance and Standards Committee; Cabinet (HRA budget framework); external audit commentary (19 Nov 2025). Reference: paragraphs 4.23–4.26
Housing – Cost and demand pressures in Temporary accommodation	Timelines: Overspend £9.5m (31 March 2025) reported to Cabinet (June 2025); monitored during 2025–26 through the Temporary Accommodation Budget Recovery Board and Residential Supply Board; 2025–26 outturn (higher than £9.5m) to be reported to Cabinet (June 2026). Mitigations to continue in 2026–27. Responsibility/oversight: Cross-departmental Temporary Accommodation Budget Recovery Board; Residential Supply Board; Cabinet oversight through financial/outturn reporting. Reference: paragraph 4.27
Enterprise Resource Planning (ERP) – Southwark360	Timelines (2025–26 to 2026–27): Cabinet approved procurement approach (Jun 2024). Lot 1 (ERP vendor) awarded to SAP (Mar 2025) with contract start 30 June 2025; Lots 2–5 awarded (Aug 2025). Lots 6 (Support) and 7 (Archiving) expected to be tendered during 2026. Programme delivery scheduled to complete by October 2027 (with six months post go-live support). Responsibility/oversight: Southwark360 Programme Sponsorship Board; Corporate Transformation and Efficiencies Board (CTEB). Contract awards delegated to Strategic Director of Resources (in consultation with Cabinet Member for Equalities, Democracy and Finance). Directors act as workstream sponsors; monthly financial reporting and budget deep-dives.

	Reference: paragraphs 4.28–4.32
Cyber Security	Timelines (2025–26): Ongoing mitigations, including mandatory staff training and continuous threat detection/blocking tools; quarterly effectiveness reporting. Responsibility/oversight: Senior Information Risk Owner (SIRO) receives quarterly reporting; cyber assurance embedded in procurement due diligence for relevant suppliers. Reference: paragraph 4.33
Schools and Education Special Educational needs and Disabilities (SEND) provision	Timelines (2025–26 to 2026–27): Ongoing work to manage falling rolls, including PAN reductions and school reorganisations. Licensed Deficit Framework in place to support maintained schools at risk of deficit and agree recovery plans. Safety Valve Agreement in place (from end of 2022–23) with monitoring reports submitted; £2.7m received in 2025–26 following acceptance of monitoring. Responsibility/oversight: Joint Education and Finance officer board (Licensed Deficit Framework). SEND governance via the multi-agency SEND Strategic Partnership Board and the SEND and Inclusion Quality and Improvement Board; Strategic Director oversight (Children's and Adults Services and Resources). Reference: paragraphs 4.34–4.36
Staffing	Timelines (2025–26 to 2026–27): Recruitment improvements implemented from 2024 and embedded during 2025–26 (vacancy advertising reduced to 2 days; vetting/onboarding to 38 days). New HR system being implemented through Southwark360 to support recruitment and exit surveys. Responsibility/oversight: Corporate recruitment team; workforce focus within the target operating model work and Southwark360 governance. Reference: paragraphs 4.37–4.38
Leisure Services	Timelines: Service insourced (May 2023). Financial recovery actions ongoing; current forecasts indicate a break-even position could be reached by 2029. Responsibility/oversight: Monthly (financial) and quarterly (operational) KPI monitoring to identify under-performance early and enable timely management action. Reference: paragraphs 4.39–4.43

The Climate Emergency

4.4 The climate emergency is a major focus for the council, which works in partnership with stakeholders, partners, staff and residents to tackle the effects of climate change. The Climate

Change Strategy and Action Plan (2025) is the primary delivery mechanism that will result in a reduction in carbon emissions across council operations and the wider borough, and deliver adaptation and resilience measures to support our residents, neighbourhoods and services as they are impacted by worsening weather events. The updated Action Plan contains 29 actions which once implemented will enable the 50% reduction in operational emissions by 2027/28, as well as further decarbonisation measures across the council estate, climate adaptation measures, local policy changes to influence others, and other key climate actions.

4.5 The council's ten-year capital programme has allocated nearly £70m to major investment programmes to support a healthy environment. This demonstrates the scale of the council's commitment to environmental improvements, climate action and facilitating the climate transition across Southwark. Implementation of these projects is delivering new active travel and low-carbon transport infrastructure, air quality improvements, carbon reductions, climate adaptation and tree planting across the borough – making residents lives better and local places healthier while also tackling climate change.

4.6 The council is undertaking a range of actions to secure sustainable finance – including in collaboration with partners and regional and national stakeholders – through development of funding bids and business cases. Key recent actions have included:

- Rounds 3 and 4 of Southwark Green Investment successfully raised £1.5m, meaning we have now raised £3.5m towards the council's target of £6m by 2030
- Successfully securing over £11.5m in grant funding from central government to support major leisure centre, social housing and school retrofit projects that will improve service efficiency, reduce emissions, improve air quality for the borough's residents and children, and support ongoing asset management
- Continued development of council project pipelines to ensure the council is ready to maximise external sources of investment
- Engaging with government and the Greater London Authority (GLA) on Southwark's most significant funding priorities and gaps
- Undertaking research and reviews of emerging alternative sources of finance, including retrofit credits and new sources of low-cost green borrowing

4.7 The council has continued to undertake climate budgeting as part of the corporate budget setting process. Climate budgeting is a governance process that when applied, drives effective implementation and prioritisation of a pipeline of short, medium and long term actions to deliver the council's climate targets. The Year 1 climate budget was adopted by Cabinet in February 2026 and focuses on the council's operational emissions from council buildings, fleet and streetlighting, setting out how the council's spending aligns with its commitment to doing all it can to be carbon neutral by 2030. The budget also identifies further funding requirements that go beyond available budgets, to support grant bids and other work on leveraging external resources.

Supporting the most vulnerable through the 'Cost of Living' crisis

4.8 During 2025–26, the Council reaffirmed its commitment to tackling the cost-of-living crisis. Building on work begun in 2022, support was delivered through the Better Living Fund, combining immediate help with preventative measures to strengthen the financial resilience of low-income households. The approach aligns with the Southwark 2030 vision for *Good Lives*.

4.9 Delivery was shaped with Voluntary and Community Sector (VCS) partners, including through the Southwark Financial Inclusion Forum, helping ensure support was targeted, accessible and responsive to need.

4.10 Support focused on residents facing the greatest hardship. This included free school meals, help for households affected by welfare changes (including Universal Credit), and application-based assistance for residents in crisis, housing instability or at risk of homelessness. This was complemented by advice and prevention services, including Southwark Energy Savers, providing tailored energy advice and practical support to households most at risk.

4.11 A small number of preventative and pilot interventions were also funded in 2025–26, including Warm Spaces, food pantries and social supermarkets, targeted homelessness prevention support, and the Positive Opportunities Fund. These pilots will be reviewed to inform the design of future provision in 2026–27.

4.12 Much of the response was enabled by the Government's Household Support Fund (HSF). The council remained accountable to the Department for Work and Pensions (DWP) through an approved delivery plan, quarterly monitoring returns and routine engagement. No concerns were raised by DWP during the year and the Council received full reimbursement. Decisions on the use of HSF and the Better Living Fund were taken under delegated authority with appropriate Member consultation, and the overall response was subject to Overview and Scrutiny review.

4.13 From 2026–27, HSF will be replaced by the three-year Crisis and Resilience Fund (CRF), intended to support both crisis responses and longer-term prevention. Southwark's allocation for 2026–27 is £5.01m. The Council has submitted the three-year delivery plan and will remain accountable to DWP for delivery. During 2026–27, the Council will maintain continuity of key support (including advice services) during a short transition period while longer-term CRF arrangements are finalised by the new Council administration, to ensure stability of provision and effective governance.

Housing – Social Housing Regulator

4.14 The Social Housing (Regulation) Act 2023 introduced additional regulatory requirements for councils as registered providers. The Regulator of Social Housing (RSH) has adopted a more proactive approach to landlord health and safety through strengthened consumer standards, requiring providers to identify and meet all legal compliance duties (including electrical safety). In November 2024, the RSH inspection of Southwark Council resulted in a 'C3' rating, meaning there were serious failings in delivering the consumer standards and significant improvement is needed.

4.15 In response, the council implemented a Housing Improvement Plan to strengthen governance, performance oversight and regulatory compliance. A Housing Improvement Board oversees delivery against the plan's themes and workstreams, supported by programme boards and resident engagement forums. Reporting also informs the Housing Revenue Account (HRA) Recovery Board to align service improvement and financial recovery activity.

4.16 The plan sets out actions, milestones and status reporting for each theme, with recovery actions tracked where delivery is behind schedule. Priority areas include landlord health and safety compliance and assurance (including electrical safety certification, smoke alarm compliance and fire risk assessment management), alongside wider improvements to data quality, reporting and key policies (such as allocations) where required.

4.17 In July 2025, Cabinet agreed the *Good Landlord Plan*, setting out how the council will respond to the RSH judgement and tenant and leaseholder feedback. The plan aims to move beyond minimum compliance to a reliable, respectful and responsive landlord service, improving core services (including repairs, damp and mould management and safety compliance) and strengthening resident voice and feedback loops.

4.18 KPMG's Value for Money risk report (November 2025) noted evidence of an adequate action plan to address the RSH issues and that appropriate governance was in place to support delivery. In late 2025, the council commissioned specialist support to design refreshed governance, assurance and performance arrangements to help deliver Southwark 2030 commitments, including the Good Landlord Plan. The work will produce:

- A refreshed housing governance framework defining boards/forums, responsibilities and reporting lines (including external audit interfaces) to strengthen oversight.
- A new housing performance framework aligning outcomes, regulatory requirements and resident priorities, enabling consistent measurement, reporting and improvement.
- An outline governance structure (roles, skills and responsibilities) to support the new frameworks within a redesigned housing business functions hub.

4.19 The work also proposes two new boards

- A Southwark Housing Board (replacing the Strategic Housing Oversight Board) to provide scrutiny and challenge on behalf of Overview and Scrutiny, chaired by the Leader of the Council, with three external members. A separate Housing Associate Partnership Board will also provide external perspective.

- A Resident Advisory Panel to provide resident-led scrutiny of landlord performance and act as a critical friend, with implementation recommended once new resident boards have embedded (towards the end of 2026–27).

4.20 A risk-based assurance framework will be aligned to the Good Landlord Plan and tailored to Southwark's risk profile. The proposed performance framework is intended to meet regulatory and

senior management assurance needs through four levels of oversight (Strategic, Corporate, Operational and Resident), with consistent KPIs to support tracking, comparison and timely intervention.

Housing – Management of Tenant Management Organisations (TMOs)

4.21 Tenant Management Organisations (TMOs) play an important role in delivering good landlord services. However, historic weaknesses in TMO management and governance have created significant financial and reputational risk for the council and undermined the TMOs' ability to deliver consistently high-quality services.

4.22 Key improvements to TMO governance and financial oversight included:

- A dedicated TMO Governance Team (established November 2024) to strengthen oversight, accountability and compliance with statutory and contractual duties.
- Quarterly collection and reporting of TMO performance and compliance data (supported by a TMO Data Analyst) to Housing DMT, the Strategic Director of Housing and the Cabinet Member for Council Homes.
- Regular governance reports to Housing Scrutiny Committee and Audit, Governance and Standards Committee.
- Annual risk-based audits and annual TMO governance reviews, incorporating Tenant Satisfaction Measures (TSMs).
- Independent oversight by the Council's external auditor (BDO), alongside monitoring of TMOs' Annual General Meetings to support accountability to residents.
- Training and capacity-building for TMO boards and tenant representatives, supported by a training needs audit reviewed regularly by the TMO Governance Team.
- A bespoke web-based TMO Governance and Monitoring App, developed with Technology and Digital Services.
- A TMO contract monitoring checklist, developed with BDO, to support consistent assurance and follow-up.
- Stronger financial monitoring, including finance reports to each Management Committee meeting, logged agendas/minutes via a governance calendar, and quarterly bank statement checks to identify emerging issues.
- TMOs must submit annual audited accounts, filed with Companies House or the Financial Conduct Authority (FCA), with copies provided to the Council.

Housing -Housing Revenue Account (HRA)

4.23 Southwark is one of the largest social landlords in the country, with around 55,000 rented, leaseholder and freeholder homes. Following a significant Housing Revenue Account (HRA) budget deficit in 2023–24, the Council implemented an HRA Recovery Plan to restore financial resilience and support long-term sustainability. Strong governance remains essential to ensure statutory compliance, financial control and delivery of high-quality housing services.

4.24 The Recovery Plan is being delivered in two phases. Phase 1 covers 2023–24 to 2025–26 and has now been extended to 2026-27 in light of emerging pressures. Phase 1 includes a year-1 spending moratorium, tight service cash limits and savings targets, flexibility in revenue contributions to support the capital programme, disposal of obsolete/uneconomic assets, and pausing some pre-construction New Homes sites to limit borrowing costs. Phase 2 now due to start in 2027 and will reset revenue and capital budgets to sustainable levels, repay temporary borrowing, restrict new unsupported borrowing, and rebuild reserves to a prudent target of £50m. Delivery is monitored through the HRA Budget Recovery Board (HRA BRB), which oversees the plan and supports early intervention where pressures emerge. Dashboard reporting is also provided to the Audit, Governance and Standards Committee to support Member oversight and transparency.

4.25 Governance and monitoring arrangements were strengthened through formal reporting in 2025–26. The report *Housing Revenue Account (HRA) Governance and Financial Monitoring* was presented to the Audit, Governance and Standards Committee on 19 November 2025, covering in-year performance and the approach to budget setting for 2026–27. The external auditor's Annual Report (also reported on 19 November 2025) noted improved control of HRA financial sustainability through delivery and governance of the recovery plan, with no significant weakness identified for the year.

4.26 Financial performance improved in 2024–25, with a favourable variance of £3.9m driven by income windfalls, reduced debt financing charges and short-term savings from delays in capital and maintenance works. However, the underlying position remains challenging and required in-year savings to meet 2025–26 cash limits, with pressures including rent policy impacts, unfunded regulatory costs (Fire Safety and Building Safety Acts), construction and energy inflation, and higher interest rates since December 2021. The HRA outturn report will be considered by the Executive after this Audit, Governance and Standards Committee meeting and is expected to show a net overspend, driven mainly by repairs and maintenance due to increased spend on one of the housing estates in order to bring properties back into use and a shortfall in rental income, partly offset by financing underspends and deferred contributions to reserves. For 2026–27, Cabinet approved the overarching HRA budget framework in February 2026. Following a more detailed budget setting exercise, a further paper to the HRA BRB in April 2026 set out emerging affordability risks, including £7.6m growth pressures and £6.4m inflation pressures, and an assumed savings requirement of £8.25m (with £5.25m identified at the time, leaving a £3.0m gap). Despite progress, the HRA remains under significant pressure and achieving balance depends on delivering further savings. Phase 2 of the Recovery Plan will coincide with a newly established 30-year HRA Business Plan and is expected to be presented to the Executive in line with the 2027–28 budget setting timetable.

Housing – Temporary accommodation

4.27 The cost and demand for temporary accommodation remains unremitting, driven by the growing national homelessness crisis, unaffordable private rented accommodation, and restrictions on Local Housing Allowance (LHA) rates, meaning welfare benefits no longer cover the cost of

many private rented homes. The reported overspend of £9.5m as at 31 March 2025 was reported to Cabinet in June 2025. These pressures were closely monitored in 2025–26 through a cross-departmental Temporary Accommodation Budget Recovery Board, alongside a newly established Residential Supply Board taking practical steps to increase the supply of appropriate housing solutions. Despite this oversight, the 2025–26 outturn position is estimated to be higher than this and will be reported to the Executive after this Audit, Governance and Standards Committee meeting. The Government has recognised these additional pressures on local authorities and has allocated additional funding for homelessness prevention; Southwark was awarded £3m more in 2025–26 than the allocation in 2024–25. Mitigations will continue in 2026–27, with short- and long-term solutions in progress.

Enterprise Resource Planning (ERP) system

4.28 Southwark has used SAP as its ERP system for HR and Payroll, Finance and Purchase-to-Pay since 1999. Through Southwark360, the council is replacing the legacy platform with a modern, integrated ERP to support core processes and deliver a wider corporate transformation across systems, data, processes and ways of working. Aligned to the Southwark 2030 Strategy and the Technology and Digital Inclusion Strategy, the programme aims to improve resident and customer experience and provide staff with secure, modern digital tools.

4.29 Southwark360 is delivered through a governance framework designed for large-scale ERP implementation and tailored to the council. It provides clear roles, escalation routes and timely decision-making. Financial management includes monthly reporting of overall programme position and targeted deep-dive challenge sessions on budgets, risks and cost-reduction opportunities.

4.30 Stakeholders have been mapped to shape business change, communications and engagement. Each programme workstream is sponsored by one or more directors, accountable for stakeholder engagement and delivery of intended benefits in their functional areas.

4.31 The procurement strategy uses seven contracts to deliver a fully integrated ERP solution. Cabinet approved the approach in June 2024, with contract awards delegated to the Strategic Director of Resources in consultation with the Cabinet Member for Equalities, Democracy and Finance. Following award of the core ERP contract to SAP, Southwark awarded further contracts in August 2025 to support implementation, business change, data migration and reporting. During 2026, additional contracts are expected to be tendered to provide managed post go-live support and compliant access to legacy data in line with HR and Finance retention requirements.

4.32 A Contract Management Plan is in place, with spend tracked against milestones and payment mechanisms. The programme is in implementation, and the design stage is nearing completion. Progress, risks, issues and benefits are reported to the Southwark360 Programme Sponsorship Board and corporately through the Corporate Transformation and Efficiencies Board (CTEB). Delivery is scheduled to complete by October 2027, followed by six months of post go-live support.

Cyber security

4.33 Attempted cyber-attacks remain a significant and ongoing risk for local government. The council continues to take proportionate action to reduce the likelihood and impact of cyber incidents, including mandatory staff training in cyber security and data protection, and the use of continuous threat-detection and blocking tools across the ICT infrastructure (including that of the council's shared service provider). The effectiveness of these controls is reported quarterly to the Senior Information Risk Owner (SIRO). Cyber security assurance is also built into the council's procurement processes, with cyber risk checks forming part of due diligence when appointing suppliers that will connect to, or interface with, council systems.

Schools and Education

4.34 There is a London-wide issue of continuing decline of pupil numbers which led to several maintained schools experiencing financial difficulties due to the close link between pupil numbers and the funding. To address this oversupply of places, there have been a number of PAN (Published Admission Number) reductions this year, with school amalgamations and school closures across the borough over the last few years. The council remains at financial risk for any maintained schools that close with deficit balances. A joint board of education service and finance officers has been working under a Licensed Deficit Framework to support schools in or at risk of entering a deficit, developing recovery plans to ensure financial sustainability.

Special Educational Needs and/or Disabilities (SEND)

4.35 At the end of the 2022–23 financial year, the Council entered into a formal Safety Valve Agreement with the Department for Education (DfE). This programme was established by the DfE in recognition of insufficient funding for children and young people with Special Educational Needs and/or Disabilities (SEND). The agreement aims to improve outcomes for children and young people while restoring the Dedicated Schools Grant (DSG) to an in-year balanced position. The council received £2.7m in 2025–26 following acceptance of monitoring reports, in addition to the £15m received in previous years.

4.36 The SEND improvement programme integrates delivery of the SEND Strategy while meeting the conditions of the Safety Valve Agreement. The programme is overseen by the multi-agency SEND Strategic Partnership Board, supported by the council-led SEND and Inclusion Quality and Improvement Board, which drives operational improvements on behalf of the Partnership Board. Additional assurance is provided through oversight by the Strategic Directors for Children's and Adults Services and Resources, ensuring progress against the actions required to achieve the financial targets set out in the agreed DSG management plan.

Staffing: Recruitment and retention of staff

4.37 The council continues to focus on recruiting and retaining a highly skilled permanent workforce. Following a comprehensive review of recruitment practice, the council agreed to invest in the establishment of a dedicated recruitment team in 2024. Since this team was established, the time to advertise a vacancy has reduced from 10 days to two, while the time to vet and onboard

successful candidates has reduced from 96 days to 38. Benchmarking data shows the council benefits from lower turnover than many other London boroughs.

4.38 As part of the Southwark 360 programme, the council is implementing a new HR system, which will include new functionality to support recruitment and undertake exit surveys, which will help to improve the council's understanding of employees' experience and why they choose to leave. In addition, the council's work to design and implement a new target operating model includes a significant focus on our workforce and the capabilities required to deliver the council's priorities effectively and efficiently.

Leisure Services

4.39 Southwark's leisure centres were brought back in-house in June 2023 to support a more flexible, high-quality leisure offer under direct council management. Insourcing was intended to make it easier to tailor programmes to local needs, combining a universal offer with targeted interventions that help residents maintain and improve their health and wellbeing, and to align delivery with the council's wider commitment to direct provision.

4.40 The opening of the new Canada Water Leisure Centre in September 2025 was a major milestone, providing a modern, accessible and more energy-efficient facility to replace the 60-year-old Seven Islands Leisure Centre. While there were early operational setbacks, including a delayed opening and a temporary pool closure due to technical issues, the new facility has increased participation and is contributing positively to residents' health and wellbeing. In 2025–26 overall attendance increased by 16% compared with 2024–25, and the Free Swim and Gym scheme saw a 1% increase in visits over the same period.

4.41 It was recognised at the point of insourcing that the service would initially cost more, predominantly due to higher staffing costs linked to improved terms and conditions and pension provision, including staff harmonisation in April 2024. However, since 2023 the net cost of the service has reduced and, based on current forecasts, the service is expected to reach a break-even position by 2029—significantly earlier than anticipated when the insourcing decision was taken in 2021.

4.42 Working with the council's Climate Change team, the service has delivered energy-efficiency improvements across the leisure estate and strengthened planned repairs and maintenance, reducing overall energy consumption and improving asset resilience. The council is on track to deliver the leisure decarbonisation and enabling works capital programme (c. £15m) during 2026–27 and 2027–28, with these measures contributing to cost savings and supporting delivery of the council's environmental commitments.

4.43 Performance is managed through a defined suite of financial and operational KPIs, monitored monthly (financial) and quarterly (operational). This provides early warning of under-performance and supports timely management action to maintain service quality, financial recovery and delivery of intended resident outcomes.

Areas of significant change – looking forward to 2026-27 and the medium term

5.1 The council continues to face a set of interrelated external pressures and governance challenges that will have an impact over 2026–27 and the medium term. These include economic volatility, sustained demand pressures—particularly in housing and social care—continued legislative and regulatory change (including funding reform, devolution and wider structural change), delivery of climate commitments and the transition to net zero, and the growing use of data and artificial intelligence in decision-support processes. In addition, the local elections in May 2026 represented a significant period of organisational and governance transition requiring careful management to ensure continuity of decision-making, financial oversight and statutory functions.

5.2 In response to economic volatility and demand pressures, the council is strengthening financial resilience through longer-term planning and transparent reporting. The Medium Term Financial Strategy (MTFS) is underpinned by prudent assumptions and has been extended to include projections to 2029–30, supporting scenario planning and assessment of external shocks and the impact of the Fair Funding Review on council funding. A three-year national funding settlement provides some additional stability, but the council remains focused on managing longer-term risks as transitional protections unwind. The key areas requiring continued oversight are summarised in Table 5.

Table 5 Looking ahead

Looking Ahead to 2026 and beyond	Action	Paragraph
Macro-economic outlook and impact on local government	The council's medium term financial strategy is set with prudent assumptions on future resources and updates reported regularly to Executive	5.3 – 5.6
Southwark 2030 and transformation	Strengthened governance, benefits realisation and alignment with MTFS savings	5.7 – 5.12
Fair Funding Review	Impact on Council funding and mitigation actions reflected in the MTFS and reserves strategy	5.13 – 5.15
Statutory changes to Procurement	Implementation of the Procurement Act and strengthened procurement and contract management governance	5.16 – 5.20

Use of AI	Proportionate governance framework to manage transparency, accountability and data risks	5.21
Local Elections – May 2026	Member induction and training; refresh of committees and governance structures; ensure continuity of statutory and financial oversight during transition	5.22-5.25

Macro-economic outlook and impact on local government

5.3 Geopolitical instability has increased during the year, heightening risks to global energy markets and supply chains. Disruption to shipping routes and energy infrastructure may increase volatility in oil and gas prices and raise transport, insurance and construction costs. For the UK, this could renew inflationary pressure, feeding through to domestic energy bills, supplier contracts and service delivery costs. For local government, these factors may increase operating costs—particularly across energy-intensive services and the housing estate—add pressure to capital programme costs and increase demand for support as households face cost-of-living pressures.

5.4 Inflation, pay and financing conditions remain material drivers of cost pressure. Although headline inflation has eased, the council continues to face contract inflation in areas such as construction, repairs and maintenance, social care, waste and facilities management. Higher interest rates also increase the revenue impact of debt-funded capital programmes and can constrain affordability. These pressures are managed through prudent inflation and interest assumptions, disciplined capital governance, regular affordability reviews, and alignment with the Medium Term Financial Strategy (MTFS).

5.5 Economic volatility continues to affect demand and income. Cost-of-living pressures can increase demand for homelessness support, temporary accommodation and local welfare assistance, while also impacting collection rates, fees and charges and wider economic activity. These risks are monitored through MTFS updates, in-year budget monitoring and corporate risk reporting. Mitigations include demand management, investment in energy efficiency, and strengthened procurement and contract management to support timely challenge, escalation and financial control.

5.6 The national and global macro-economic outlook remains uncertain, with ongoing implications for local government finances and funding. Public spending plans are sensitive to changes in growth, productivity and inflation, increasing volatility for unprotected departments such as local government. The council therefore continues to apply prudent assumptions within the MTFS, supported by active monitoring of emerging risks, longer-term planning and scenario modelling. Governance arrangements emphasise clear accountability for managing budget pressures and timely reporting to Members through established financial, performance and risk routes.

Southwark 2030 – transformation programmes

5.7 The council's transformation programmes are central to delivering Southwark 2030 and supporting long-term financial sustainability, service improvement and value for money. Activity is coordinated through a portfolio of cross-council programmes focused on modernising services, strengthening corporate capability and delivering efficiencies, while maintaining a strong focus on resident outcomes.

5.8 Governance of the transformation portfolio is provided through the Corporate Transformation and Efficiencies Board (CTEB), which oversees delivery and provides strategic direction on priorities, resources and risks. CTEB ensures alignment between transformation activity, the

Medium Term Financial Strategy (MTFS) and the Council Delivery Plan, supported by Director-level groups and programme boards (including the Director Champion's Group), with Directors and Heads of Service acting as Senior Responsible Owners.

5.9 Programmes operate within defined governance arrangements, with clear sponsorship, decision-making routes and accountability. Regular reporting to CTEB and the Corporate Management Team provides oversight of delivery, benefits, risks and dependencies. A corporate transformation delivery framework is being implemented to standardise approaches to risk and issue management, benefits realisation and reporting, and to strengthen integration with performance and financial governance.

5.10 The council has developed a financial benefits framework to improve how cashable and non-cashable benefits are identified, appraised, monitored and reported. This strengthens transparency and accountability, aligns benefits with budget-setting, and helps mitigate optimism bias or double counting, reinforcing the link between transformation delivery and the MTFS.

5.11 The portfolio includes major programmes such as Redesign of Business Resources, Corporate Real Estate, Procurement and Third-Party Spend, Housing Improvement and the Corporate Programme Management Office (PMO). These programmes are monitored through regular highlight reports and performance reporting to CTEB, providing visibility of progress, risks and financial performance. Governance continues to be strengthened through clearer SRO roles, improved resource planning and better integration between transformation governance, workforce planning and financial controls.

5.12 Future Southwark remains a key element of the Council's transformation approach and will continue through Phase II, focusing on delivery of Southwark 2030 through changes to culture, skills, accommodation and service delivery models. The work is overseen by CTEB to ensure cross-department integration and alignment with wider transformation activity, including cross-cutting savings workstreams. Delivery will depend on pace of implementation, data quality and alignment with organisational priorities, with business cases and sourcing plans developed in stages and early benefits anticipated in some areas.

Fair Funding Review and the Medium Term Financial Strategy (MTFS)

5.13 Council Assembly approved a balanced budget for 2025–26 in February 2025. Financial performance has been monitored through in-year budget monitoring, including monitoring of departmental and transformation savings. The 2025–26 outturn position will be reported to the Executive after this Audit, Governance and Standards Committee meeting. The 2026–27 budget was approved in February 2026, with draft budgets for the following four years to 2029–30 updated following the Final Local Government Finance Settlement. This confirmed implementation of the Fair Funding Review, a full reset of the business rates retention system and a three-year funding arrangement—representing the most significant reform of local government funding in over a decade.

5.14 For Southwark, the new funding formula results in a reduction in assessed relative need over the medium term, reflecting changes in national deprivation measures and the positive impact of long-term regeneration outcomes on the borough's relative needs position. The final settlement confirmed a three-year transitional protection package, including the Recovery Grant Guarantee, which protects the council at 100% of its 2025–26 funding baseline through to 2028–29. The Council has reflected the final settlement within its Medium Term Financial Strategy, including earmarked reserves to manage the transition.

5.15 The MTFS identified agreed transformation savings of £3m in 2025–26 and a further £7m in 2026–27. The outturn report to be considered by the Executive after this Audit, Governance and Standards Committee meeting is expected to confirm that there is unlikely to be any material in-year savings delivered against the £3m target. As a result, the total savings requirement for 2026–27 increases to £10m, which is significant for delivery of the MTFS and the council's longer-term financial sustainability, including the potential for increased reliance on reserves. Looking ahead to 2026–27, the council will strengthen governance of corporate transformation programmes to improve oversight, pace and benefits realisation, and will plan early remedial actions in the year where delivery is at risk.

Statutory Changes to Procurement

5.16 The Procurement Act came into effect in February 2025 alongside the National Procurement Policy Statement (NPPS), strengthening transparency and governance requirements across the commercial lifecycle. The NPPS priorities include value for money, growth, transparency and support for Small and Medium-Sized Enterprises (SMEs). The council continues to strengthen procurement and contract management assurance to meet these requirements.

5.17 During 2025–26, the council implemented key transparency duties, including a forward procurement pipeline for contracts over £2m and publication of statutory notices for higher-value contracts over £5m via the Central Digital Platform. The statutory duty to consider SME participation has been embedded through updated processes and templates, including simpler documentation and earlier market engagement.

5.18 The council reviewed its procurement framework to align with the Act, the NPPS and Southwark 2030 and agreed an implementation plan. The review also highlighted that decentralised arrangements—particularly for contract management—reduced corporate grip and value for money. The council approved a hub-and-spoke procurement and contract management operating model with integrated category management to strengthen ownership of major spend and clarify decision rights. The contract register and procurement pipeline are being embedded as the single source of truth for third-party spend and statutory publication.

5.19 The Act requires proportionate, risk-based governance across procurement and contract management. During 2025–26, a work plan began to consolidate decision forums, streamline gateways and strengthen contract management oversight to embed the new operating model. Over 2026–27, governance will be lighter for low-risk activity and tighter for higher-risk and higher-value procurements through risk-tiered gateways, supported by an accountability framework, standard

templates, and KPIs, dashboards and escalation routes for the highest-risk and highest-value contracts.

5.20 Delivery will be overseen through CTEB and scrutinised by the Audit, Governance and Standards Committee. The intended outcome is a more transparent and consistent commercial framework, with clearer accountability, improved value for money and stronger social and local economic outcomes.

Use of AI

5.21 The growing use of artificial intelligence (AI) and automated decision support tools presents both opportunities and governance risks. While AI may help improve productivity and insight, it also raises risks relating to transparency, accountability, information governance, bias, cyber security and supplier dependency. The council will therefore ensure that any adoption of AI is risk assessed, proportionate and consistent with legal duties, including data protection and equality obligations. Key controls include:

- Clear policy and guidance on approved use cases and human oversight.
- Data protection, records management and information security controls (including supplier assurance).
- Testing for bias and monitoring of outcomes where tools affect resident decisions.
- Transparent documentation of how tools are used to support decisions, with auditability and accountability.

Local elections – May 2026

5.22 The council successfully delivered the local elections in May 2026 in accordance with statutory requirements, supported by well-established governance and operational arrangements. The elections resulted in no political group holding an overall majority on the council. A new administration was subsequently formed by the Green Party and the Liberal Democrats, representing a change in the council's governance context for 2026–27. Governance arrangements were updated accordingly to support effective decision-making through the council's established constitutional framework.

5.23 Ahead of the election count, all candidates and agents were provided with information on onboarding and induction arrangements. Following declaration of the results, successful candidates received a welcome pack setting out key information on the role of the council, the code of conduct and the role of a councillor.

5.24 The main induction sessions took place on 11 and 12 May 2026. These sessions enabled Members to receive their IT equipment, obtain essential information on the council's services and responsibilities, and meet senior officers to support an effective start in office.

5.25 A comprehensive member induction programme has been established for the four-year term, including mandatory training on the code of conduct, planning and licensing. Additional training is being provided on scrutiny, finance, casework, housing and chairing skills to support continuity of core governance, financial oversight and statutory functions.

Conclusion

6.1 This Annual Governance Statement has reviewed the actions and outcomes during 2025-26 and identified areas requiring continued focus in future years, set against a challenging external environment, including prolonged macro-economic uncertainty. Additional assurance, transformation and improvement activity has been put in place during the year to strengthen resilience and ensure that robust governance arrangements continue to support effective decision-making, accountability and value for money.

6.2 Taken together, the issues outlined in this Statement demonstrate that the council is operating in a period of heightened volatility and uncertainty, shaped by economic conditions, geopolitical risk and constrained national funding. While many of these pressures are external, the council's governance framework emphasises disciplined financial planning, scenario modelling and clear accountability for managing risk within available resources. The Medium Term Financial Strategy (MTFS) provides the primary framework for balancing short-term pressures with longer-term sustainability, supported by strong in-year budget monitoring, capital governance and corporate risk management.

6.3 The extension of the MTFS to 2029–30, alongside the introduction of a three-year national funding settlement, provides a firmer basis for medium-term planning. However, material risks remain once transitional funding protections unwind. These risks are compounded by sustained demand pressures—particularly in temporary accommodation and social care—and the need to deliver significant savings and transformation outcomes within planned timescales.

6.4 In this context, effective governance will continue to depend on timely and transparent reporting to Members, robust challenge through established decision-making and scrutiny forums, and the ability to take early corrective action where risks to delivery or affordability emerge. These arrangements will also support continuity, following the local elections in May 2026, ensuring that statutory functions, financial oversight and corporate priorities remain firmly embedded during the transition into 2026–27.

6.5 Progress against the action plans set out in Tables 4 and 5 will be monitored by the Corporate Management Team, with delivery and emerging risks reviewed on a regular basis. Updates will be reported at least quarterly through established governance and performance monitoring arrangements, with issues escalated as necessary to the Audit, Governance and Standards Committee and, where appropriate, to the Executive. This approach is intended to ensure effective follow-up, sustained oversight and transparency in the Council's continued strengthening of its governance arrangements.

6.6 The draft assurance statement was approved by the Corporate Management Team in May 2026 and was presented to the Audit, Governance and Standards Committee in July 2026 for consideration. Subject to that consideration, it will be formally approved by the Audit, Governance and Standards Committee in September 2026. It is signed on behalf of Southwark Council and made publicly available on the council website:

Chief Executive

Date:

Leader of the Council

Date

Agenda Item 10

Meeting Name:	Audit, Governance and Standards Committee
Date:	8 September 2026
Report title:	Overview of corporate risk management process
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	N/A
From:	Strategic Director of Resources

RECOMMENDATIONS

1. That the audit, governance and standards committee note the corporate risk management process.

2. That the audit, governance and standards committee notes the refresh of the risk management policy statement and strategy.

BACKGROUND INFORMATION

3. This report provides an overview of the corporate risk management process for committee members.

4. This report also provides a copy of the refreshed risk management policy statement and strategy at appendix one and the current corporate risks in the form of an assurance framework at appendix two.

KEY ISSUES FOR CONSIDERATION

Overview

5. Risk management is a tool that provides a structured approach to managing uncertainty and provides information to help make effective decisions.

6. The council's risk management process enables risks to be effectively managed to ensure the council meets its corporate and business objectives; and alerts the council to new / increasing risks that may impact on the council's ability to serve its community.

7. The council's risk management objectives include:

    a. Support the strategic aims and operational objectives of the council by identifying and managing the operational risks
    b. Ensure that risk management is embedded into all key council activities

c. To ensure there is a transparent and prompt escalation and communication process through the council on risk management to key decision-makers, enabling them to make considered risk decisions. These will include the decision whether to eliminate where possible any unacceptable risk exposures
d. Achieve standards in risk management in line with established best practice.

Approach to Risk Management

8. There are four key steps in the risk management process:

- Risk Identification – risks to the achievement of a particular objective or decision are identified
- Risk Assessment – risks are assessed based on the likelihood of occurrence and the potential impact if that risk was to occur. The council has adopted a 10x10 scoring methodology that provides enough clarity to enable risks to be accurately ranked
- Risk Mitigation – depending on the assessment of the risk, current and future controls will be identified to reduce the risk score
- Risk Monitoring and Review – the risks are monitored and regularly reviewed to capture any change

9. The council uses the following risk categories to capture risk:

- Economic (e.g. inflationary pressures)
- Financial (e.g. budgetary constraints)
- Reputational (e.g. failures of service delivery which hit the press)
- Staffing & Culture (e.g. recruitment & retention)
- Operational (e.g. services not being delivered)
- Legal & Regulatory (e.g. not complying with a statutory duty)

10. The council cannot remove all risks, so where they remain, there is an attempt to reduce or control them to an acceptable level by taking one of the following approaches:

- Minimise – controls are implemented to reduce the risk to an acceptable level without ceasing the activity.
- Accept and manage – the risk exposure may be tolerable without any further action being taken which are usually low scoring risks. For high scoring risks, it may also be the case that despite the risk exposure bring high there is nothing that can be done and the council will just have to 'live with it'.
- Transfer – some risks have the opportunity to transfer the risk or the financial aspect of that risk. For instance, you may be able to transfer an exposure to a contractor on a major project or transfer the financial consequence of a major event through purchasing insurance. It should be noted that the risk's potential reputational impact may remain with the council regardless of where the risk was transferred to.
- Cease the activity – in exceptional circumstances, the council may decide to cease the activity giving risk to the risk as the exposure is too

great. However, there are activities in the council that, regardless of the risk involved, would have to continue.

Risk Registers

11. Each department has a departmental risk register. These are updated via the network of departmental risk champions who work with each departmental senior management team to maintain a current risk register. Each risk register records the risk, assessment score, ownership and key controls and action plans to manage each risk.

12. Many departmental risks represent a core component of service delivery and therefore will form part of the day to day performance management of the department.

13. Each risk requires mitigations. These outline the current controls in place to manage the risk and identifies, where necessary, any further controls needed to reduce the risk.

14. These individual risk registers are stored on the council's risk management software system that are used to build the corporate risk register.

15. A review and aggregation exercise is undertaken to identify the key risks facing the council as a whole.

16. The risks on the assurance framework have been reviewed by members of CMT and updated as appropriate since the last report to committee. The key corporate risks also align with the unique challenges and demands being faced by local authorities particularly in light of a challenging financial and regulatory environment and the continuing evolution of cyber threats.

Key corporate risks

17. As set out above, following a review and validation of the combined departmental risk registers and an aggregation exercise, the top risks across the council have been identified. These top risks are attached in appendix two.

18. The top risks are generally those that have been assessed as amber or red and which appear in more than one departmental risk register, and are therefore relevant to more than one department or would significantly affect the council's objectives. These top risks are those risks which often require most proactive management to ensure that all appropriate mitigation actions have been considered and are being implemented as far as possible.

19. Work will be undertaken over the coming months and before the annual report is due to be presented to this committee in February 2027 to remap the risks to the borough's seven new priorities and borough action plan.

Policy framework implications

20. This report is not considered to have direct policy implications.

Community, equalities (including socio-economic) and health impacts

Community impact statement

21. This report is not considered to contain any proposals that would have a significant impact on any particular community or group.

Equalities (including socio-economic) impact statement

22. There are no direct equalities implications in the proposals in this report.

Health impact statement

23. There are no direct health implications in the proposals in this report.

Climate change implications

24. There are no direct climate change implications in the proposals in this report.

Resource implications

25. There are no direct resource implications in this report.

Consultation

26. No consultation was required for this report.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
1	Risk Management Policy Statement and Strategy 2026
2	Assurance Framework August 2026

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Laura Sandy, Corporate Risk and Insurance Manager	
Version	Final	
Dated	27 August 2026	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	No	No
Strategic Director of Resources	Yes	Yes
Executive Member	No	No
Date final report sent to Constitutional Team		27 August 2026

Appendix One

Risk Management Policy Statement and Strategy 2026

Risk Management Policy statement

Southwark Council believes that managing risk, both opportunity and threat, is essential to effective local government. The council takes a proactive approach to the management of risks to support its strategies, day to day operations and overall achievement of the Borough Action Plan and associated activities.

A certain amount of risk is necessary and unavoidable, but risk can be a positive force in developing and improving our services. However, risks need to be managed and maintaining a robust system of risk management supports the council in delivering its seven priorities.
In implementing this policy, the council will:

- Safeguard our residents, clients, service users, employees, members, pupils and all other persons to whom the council provides services and has a duty of care
- Protect our property, buildings, data, IT and other equipment, vehicles and all other assets and resources
- Ensure statutory compliance, and update practices when necessary
- Maintain and strengthen the services we deliver
- Maintain effective and efficient control of public funds by reducing waste, minimising our exposure to fraud and corruption, and delivering value for money
- Support the sustainability of the environment and minimise negative impacts
- Increase the likelihood of change initiatives being implemented effectively and in a timely manner
- Respond effectively in the event of an emergency.

Our success in dealing with risk has a major impact on achieving our key objectives and delivering our services. The risk management strategy sets out our approach to managing risks and how risk management will be applied across the council. This document should be read in conjunction with the risk management procedures.

Appendix One

Risk Management Strategy

Introduction

Southwark is a dynamic borough in the centre of London, a truly global city. This brings change, challenges and opportunity to all those who work here, pass through here and most of all call Southwark their home. There has been a significant programme of regeneration in Southwark, such as Elephant and Castle, Aylesbury, Canada Water, Old Kent Road and London Bridge Quarter, home of the Shard, bringing thousands of new homes and jobs to Southwark.

Southwark is one of the most densely populated and diverse boroughs in England, with a relatively young and growing population. More than 120 languages are spoken in Southwark schools, reflecting the borough's rich cultural diversity. The borough had a population of approximately 307,600 at the time of the 2021 Census, with an average age of 32.4 years, making it younger than both the London and national averages. Southwark is the seventh most densely populated local authority area in England and Wales, with around 10,655 residents per square kilometre.

The borough has a rich mix of employers, including internationally renowned names such as PwC, Ernst and Young, News UK and Hilton hotels. The business mix ranges across construction, health and social care, retail, catering, hospitality, public sector and administration, and finance and legal. However, as across London, there lies a skills challenge in getting more people into the jobs of the future and ensuring all benefit from growth and development in years to come, including the impact of leaving the European Union.

Southwark Council is committed to delivering a fairer future for its residents as set out in the Borough Action Plan, and this risk management strategy will allow the council to identify, assess and manage key risks effectively in order to achieve this objective.

Risk Management

Risk is the uncertainty of an event occurring that could have an impact on the achievement of objectives, and is measured in terms of impact and likelihood.

For Southwark, risk management is the process whereby the council methodically addresses these risks to the council achieving its vision, corporate and operational objectives.

Effective risk management is also an essential and integral part of effective corporate governance. It is not a separate process. Instead, it is at its most effective as an integral part of the council’s business process and culture.

This risk management strategy outlines how the council will achieve its risk management objectives, whilst the detailed risk management procedures are contained in a separate document.

Risk Management Objectives

The risk management objectives are:

1. To continue to support the strategic aims and operational objectives of the council as defined through the Borough Action Plan by supporting the management of risks.

2. To ensure that risk management is embedded into all key council activities, including business planning and the budget process.

3. To embed and extend risk management procedures to include key partnerships.

4. To ensure that there is a transparent and prompt escalation and communication process through the council on risk management to key decision-makers, enabling them to make considered risk decisions. These will include the decision whether to eliminate where possible any unacceptable risk exposures.

5. To consider not only the risks that may affect the achievement of strategic aims and objectives but also to consider opportunities (positive risks) that may help improve the chances of succeeding in achieving those aims and objectives.

6. To achieve standards in risk management which are best practice in both the public and private sector, exceeding regulatory requirements.

Achieving Our Risk Management Objectives

The following points set out how we will achieve our risk management objectives. The risk management procedures provide further detail to the following where necessary.

Embedding risk management

The risk management process is embedded through the business planning, budgeting and performance review process, and is also applied if there is a major organisational change or key project.

Risk register

The council maintains risk registers that capture the key departmental and corporate risks to the council, including areas of risk opportunity. Key risks are held on the council-wide risk management system (JCAD).

Risk identification and assessment

Risks are identified at least annually and are reviewed at least quarterly by each department, and consistently assessed using the council-wide risk assessment methodology. Risks are identified under the following risk categories: economic, financial, operational, staffing and culture, reputation and legal and regulatory compliance.

Risk assessment is measured by likelihood of occurrence and by potential impact. Impact to the council is measured under the key areas of ‘life and limb’, customer service, staffing and culture, compliance with regulations/ law, reputation and financial.

Risk opportunities

During the risk identification process, risk opportunities (positive risks) may also be identified. The risk management process enables opportunities to be managed alongside negative risks. Following initial identification of opportunities it may be appropriate to move these opportunities to other council business processes to maximise their positive impact.

The council’s risk appetite

At department level, risks are assessed based on each department’s individual tolerance to risk. At corporate level, risks are identified based on the council’s overall tolerance to risk as outlined in the risk management procedures document.

Appendix One

In addition, systems are in place to escalate risks to senior management level in situations where the risk is assessed above a pre-approved risk tolerance which is detailed as part of the risk assessment framework.

Risk control

The council maintains an effective control framework designed to manage risks. Any risks that are an unacceptable exposure to the council are mitigated as far as possible. Where a proposed activity or venture has a residual risk that is considered unacceptable and there is no means of reducing the risk to an acceptable level the activity may be rejected. However, there may be occasions where there is a statutory obligation to undertake the activity despite the risk exposure.

There will be occasions where it is appropriate to take measured levels of risk in furtherance of the council's strategic aims and objectives. Where it is feasible and cost effective to do so, the financial impact of risks may be minimised by insurance or other third party indemnities.

Risk monitoring and review

Risks are monitored and progress against them reviewed through the performance review and challenge process which includes a quarterly review of key risks by each cabinet member within their own portfolio. The corporate management team also monitor and review key council risks on a regular basis, and corporate risks are reported to the audit, governance and standards committee on an annual basis. Further details are contained within the risk management procedures.

Risk and Issue escalation and reporting

There are procedures in place to ensure that strategic directors, CMT and relevant cabinet members receive the necessary information to monitor key risks and issues (those risks that materialise) and take considered decisions. Further details are contained within the risk management procedures.

Programme and project management

All key projects will incorporate risk assessment at the project initiation phase and regularly through the life-time of the project. The council's accepted robust project management methodology is used across the council to support the project management process including a requirement to identify and monitor risks.

Partnerships and contracts

Partnerships are an area of increasing importance to how the council operates and as such there may be key risks within the partnerships that could potentially have an adverse effect on the council. Therefore, the council will be working increasingly with partnerships to develop and implement robust risk identification and assessment arrangements. These can be recorded and monitored on JCAD.

Key contractual arrangements also form part of the risk identification and assessment process.

Emergency planning and business continuity planning

Key risks that may result in the council's emergency arrangements being invoked are contained within the council's risk register. The council has emergency and business continuity plans in place to reduce the potential impact to the council if these risks were to materialise.

Health and Safety

Appendix One

The Southwark Safety Management System has placed the identification of risk control strategies to eliminate or control hazards at the centre of our health and safety arrangements and processes. Significant identified risks are recorded on JCAD.

Performance management and external scrutiny

The risk management process will be regularly audited against industry best practice by internal audit. In addition, external audit will be undertaken by KPMG. The process will be continuously improved in line with this feedback. In addition key risk management documents will be presented to the audit, governance and standards committee for formal review.

Risk management resource

Sufficient resources are devoted to risk management to ensure that it is effectively undertaken. The corporate risk and insurance manager reports to the director of corporate finance, who reports to the strategic director of resources.
The network of departmental risk champions supports the corporate risk and insurance manager.

The JCAD system software stores the risk registers and supports the management of risk throughout the council, and is accessible to those with responsibility for risk management.
The risk-related disciplines such as internal audit, health and safety, insurance, emergency and business continuity planning, performance management and project management all contribute to the council's risk management process.

At departmental level the risk management process is supported and actively promoted by a network of departmental risk champions. Risk champions across the council meet quarterly to discuss risk and update the corporate risk and insurance manager with any risk-related developments within the department.

Risk management training is available to council staff and members commensurate with their role and their responsibility for risk management.

Responsibility and ownership for risk

The authority for and responsibility to take decisions involving risk will be appropriate to the level of risk and is defined and communicated within the risk management procedures document. There is a council wide risk champion at senior officer level. The senior officer risk champion is currently the strategic director of resources, Clive Palfreyman.

The senior officer risk champion has responsibility for overseeing risk management and has delegated specific responsibilities for components of the risk management process. Risk is aligned to the council's performance review and challenge process, with relevant lead cabinet members and strategic directors taking ownership of, and being held accountable for, the delivery of borough action plan measures and milestones including the mitigation of risk that would limit achievement of priority outcomes.

The risk management policy statement and strategy are submitted to the council's audit, governance and standards committee for review and comment.

The information contained above forms part of the overall governance of the council. In addition, a report is presented to the audit, governance and standards committee each year, to provide an annual update on key risks, and other reports on risk management are presented as needed.

Risk Description	**Housing Revenue Account** Overspends on the housing revenue and capital accounts result in the depletion of housing reserves resulting in an inability to set a balanced revenue budget or deliver on the council's housing investment programme
Risk Score: 82	**Controlled Risk Score:** 69

Mitigation / First Line (business operations / management controls)

- Creation of recovery plans, scrutinised and supported at a senior level and council wide priority
- Review and refresh of the capital investment programme, including affordability criteria and prioritisation
- Minimisation of borrowing across the housing investment programme in order to limit impact on the revenue account
- Maximisation of income sources, be they revenue (e.g rents) or capital (e.g grant funding)
- Review of procurement approach to maximise value for money
- Enhanced monitoring and mitigating action plans in relation to Temporary Accommodation costs
- Medium-term strategy to restore reserves to a more sustainable level
- Realign the strategy for the next phase of new council homes construction to minimise the cost to the council by entering into development agreement partnerships

Second Line (oversight functions)

- Monitoring Reports to CMT and Executive
- Budget Recovery Boards
- Reports to Council Assembly
- Overview and Scrutiny Committee

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- External Audit

Assessment of Assurance

Assessment of Assurance is good. There are multiple operational controls with strong oversight from Budget Recovery boards, senior monitoring and independent review via internal and external audit. The council are not able to control external factors that influence.

Risk Description	**Asset Management and Building Safety** Failure to invest appropriately in the maintenance or management of the council's assets including damp and mould and disrepair issues, to have clear sight of responsibility for assets plus failing to implement the requirements of the Building Safety Act, or a sudden and unforeseen event which may give rise to unacceptable future liabilities and additional budget pressures, reputational damage and potential legislative consequences
Risk Score: 71	**Controlled Risk Score:** 54

Mitigation / First Line (business operations / management controls)

- Housing asset management requirement reset including initial estimates of additional fire and building safety works
- Programmes of planned and preventative maintenance (PPM) in place
- Capital investment strategy and targeted investment in assets in place
- Stock condition surveys and effective monitoring of assets
- Insurance programme in place to respond to sudden and unforeseen events
- Changes to staff structures that will support new regulations
- Actions programme arising from the RSH judgement including electrical and fire safety, improvements to the repairs service
- Decent Homes Standard
- Ensure the council's Employer's Requirements for new homes construction contracts reflect the most up to date Planning, Building Control and Building Safety requirements, including the timing of the Building Safety Gateways
- Regularly integrate feedback from defects, Post-Occupancy Evaluation (POE), and handover processes into the Employer's Requirements (ERs) to ensure continuous improvement is embedded throughout the design and delivery cycle.
- Adopt a collaborative approach to implementing the Council's Golden Thread strategy, ensuring engagement with other departments to contribute and maintain accurate, up-to-date information throughout the building lifecycle
- Emergency response and business continuity plans in place

Second Line (oversight functions)

- Reports to CMT and Executive
- Housing Improvement Board
- Chief Executives Housing Assurance Board
- Strategic Housing Oversight Board
- Overview and Scrutiny Committee

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- Regulator of Social Housing
- Building Safety Regulator
- Independent reviews commissioned by senior management

Assessment of Assurance

Assessment of Assurance is good. Strong oversight functions with independent assurance from the RSH and Building Safety regulator.

Risk Description	**Temporary Accommodation** Increasing supply to assist with homelessness and reduce demand in the borough
Risk Score: 82	**Controlled Risk Score:** 67

Mitigation / First Line (business operations / management controls)

- Focused training on Landlord and Tenant law
- Procurement options developed to mitigate homelessness impact and TA budgets
- Borough mapping to identify areas for new development
- Use of private sector housing enforcement and joint working with ASB teams to minimise homelessness
- Maximising use of own stock, e.g. Aylesbury voids

Second Line (oversight functions)

- Monitoring reports to CMT and Executive
- Overview and Scrutiny Committee
- Housing Improvement Board
- Chief Executives Housing Assurance Board

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- Regulator of Social Housing
- Temporary Accom Budget Recovery Board chaired by Strategic Director of Resources
- MHCLG

Assessment of Assurance

Level of Assurance is medium. Some mitigations are at an early stage, e.g. Training on landlord and tenant law, which limits current assurance. Introducing KPIs to track the reduction in the use of TA could improve the operational assessment. Second and third line assurances are good.

Risk Description	**Climate Emergency** Impact of the climate change strategy creates capacity, financial or practical operational challenges and pressures with the potential for reputational damage for any failure in delivery. Residents and the local environment are adversely affected by the climate emergency through threats such as overheating, flooding, water scarcity, food security, new pests and diseases.
Risk Score: 74	**Controlled Risk Score:** 47

Mitigation / First Line (business operations / management controls)

- Climate change strategy and action plan, updated in 2025 to include climate resilience and adaptation.
- Specific capital investment to tackle climate risks and opportunities via Climate Capital Fund and Green Buildings Fund
- Climate Change team established under Climate Change and Strategic Support Director
- Cross departmental collaboration to further develop the council's strategy, ensuring climate is embedded across all council policies where appropriate
- Engagement with stakeholders and partners
- Development of council governance structures, policies and procedures to incorporate commitment to the strategy
- Development of clear and funded plan of activity to meet objectives of the council
- Clear climate change communication plan with all stakeholders
- Continually review costs and affordability of programme and deliverability against targets
- Investment in green homes, e.g. using Modern Methods of Construction, Air and Ground Source Heat Pumps, blue roofs, green roofs etc
- Investment in the SELCHP connection to major estates within the housing portfolio
- Explore the cost-benefit of Passivhaus standards, with the aim of informing our future approach to delivering energy-efficient and sustainable council homes

Second Line (oversight functions)

- Climate Director Steering Group (to be re-established as per internal audit recommendation)
- Air Quality Partnership Board
- Reports to Executive
- Overview and Scrutiny Committee

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit

Assessment of Assurance

The controls in place are generally adequate and council wide support is provided by The Climate Change Team to assist the organisation in considering climate in every aspect of its activities. Workstreams within the Transformation programme will also provide additional assurance that carbon savings and climate adaptation measures are being delivered.

Risk Description	**Schools and Education** School deficit balances coupled with the challenge of rising numbers of surplus places in primary schools creates pressure on school budgets and ultimately council budgets plus other direct consequences as savings are identified to try and achieve a balanced position. SEND improvement programme via the DfE's 'safety value' initiative fails to deliver the agreed outcomes of the council's SEND Strategy which may impact on children and young people in the borough.
Risk Score: 88	**Controlled Risk Score:** 29

Mitigation / First Line (business operations / management controls)

- Keeping Education Strong strategy
- On-going work with schools to ensure schools in financial difficulties follow the scheme of management and approved deficit recovery plans.
- Mergers and closures of schools when all other options have been exhausted.
- Training courses on budgets are provided to school business managers, head teachers and governors.
- The Council is on track to successfully complete the DfE Safety Valve programme and all payments to date have been received. Strong arrangements in place to continue to project manage this programme.
- Building new family sized council homes in areas where population shift is threatening the viability of schools
- Enhancing the local school provision where possible, e,g, replacement facilities on the Tustin Estate

Second Line (oversight functions)

- Children's and Adult Board
- Joint Board of Education Service and Finance officers working under a Licensed Deficit Framework
- Reports to Executive
- SEND Strategic Partnership Board
- SEND and Inclusion Quality and Improvement Board
- Education and Local Economy Scrutiny Commission

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- Reporting to the DfE
- OFSTED / CQC inspections

Assessment of Assurance

There are a range of assurances across both aspects – for the first, audits and Finance report showing that we have more than halved the number of schools in financial deficit and our strategy continues despite headwinds.

On the second, the Safety Valve programme is on track and all payments to date have been received and actions continue to mitigate the rising demand and costs.

Risk Description	**Acute Socio-Economic Factors** Failure or lack of capacity to react to wider economic and socio-economic trends including changes to central government fiscal policy, inflation and interest rate changes, recession, changes in numbers of homeless, market forces (e.g. London housing market), international and domestic migration; all of which threaten to create either funding shortfalls or compromise the delivery of council services. Business rate revaluation and creation of new multipliers will add to existing pressures for businesses in the retail, hospitality and leisure sector which is a big part of the local economy. Ongoing economic uncertainty and cost of living crisis continues to affect wealth and inequality, housing affordability, and complexity of need leading to increasing budget pressures and a worsening financial outlook.
Risk Score: 83	**Controlled Risk Score:** 70

Mitigation / First Line (business operations / management controls)

- Flexible Medium Term Financial Strategy
- Capital programme subject to continual review and update to ensure delivery of council priorities
- Active but flexible Investment and development programmes which may be deferred, cancelled or scaled down as high interest rates increase revenue costs
- Delivery of Economic Strategy
- Active local stakeholder engagement to communicate issues and to help mitigate risks to business and employment
- Regular update of fees and charges and review of new income generating schemes and grants to help mitigate financial impacts and risk of cuts
- Transformation programme with various workstreams – renewed focus on long term transformation and refocus of council priorities
- Cost of Living Support although external funding is being reduced
- Encouraging and support the use of SMEs on new homes construction projects

Second Line (oversight functions)

- Reports to CMT
- Reports to Executive
- Regular monitoring of performance against the council delivery programme by strategic directors and executive members
- Southwark Economic Strategy 2023 to 2030
- Corporate Transformation and Efficiency Board
- Overview and Scrutiny Committee
- Education and Local Economy Scrutiny Commission
- Connect2Work now launched

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- External Audit

Assessment of Assurance

Internally, business engagement remains strong and the number of London Living Wage employers within the Borough have more than doubled in 3 years. However, the council's influence is only partial in the context of wider societal factors.

Risk Description	**Cost of Living Crisis** The necessary resources required to support business and residents from the adverse impact of rising costs are not available from government and this will impact adversely on the funding of other council services and create budget gaps. Impact of cost of living crisis will continue to add a strain on the welfare benefits systems and increase demand for council services such as social care and health, welfare and emergency support and temporary accommodation. Council tax collection has not recovered to pre-pandemic (2019-20 levels) Stagnant or falling living standards especially for households with lower incomes will continue to create challenges for council tax collection and see council tax debt levels rise further coupled with the outcomes from current Government consultation on CTAX Collection could increase those challenges. Government welfare reforms such as Move to UC create risks for vulnerable households (the ESA cohort) with an unknown number (potentially hundreds or thousands) at risk of failing to migrate successfully to UC and destitution or homelessness.
Risk Score: 76	**Controlled Risk Score:** 51

Mitigation / First Line (business operations / management controls)

- Maintenance of reserves and appropriate allocation of earmarked council reserves
- Inclusion of contingency within budgets
- Continued close monitoring of impacts on council services and local economy
- Cross departmental programme board to coordinate activity
- Fast and effective delivery of support through Household Support Fund
- Liaison with VCS and key partners to delivery community referral pathway and provision of warm hubs
- Assistance / support for customers to ensure income maximisation
- Delivery of the energy savers scheme in partnership with CAB
- Consistent approach to CTAX debt write-off
- Successful pension credit project
- Stronger focus on prior year collection balanced with impacts for in year collection
- Ensuring the quality standard of new council homes supports affordability for residents
- Where possible, proactively future-proofing new homes developments by integrating flexible infrastructure, sustainable technologies, and scalable systems that can accommodate emerging trends, regulatory changes, and user needs over time
- Thames Water Social Tarriff pilot launched.

Second Line (oversight functions)

- Budget challenge process implemented and followed
- Continual lobbying of government to meet the needs and demand pressures created by the cost of living crisis
- Pan London engagement to communicate with government, the voluntary sector and other agencies
- Southwark Economic Strategy 2023 to 2030
- Budget monitoring and regular reporting on changes in the cost of delivering services with mitigating actions taken where adverse variances are predicted and adjusting forecasts as necessary
- Overview and Scrutiny Committee

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- External Audit
- DWP

Assessment of Assurance

Assurance is sufficient across the three lines and close monitoring through the Move to UC Taskforce is undertaken. Mitigations are in place through use of the Better Living Fund.

Risk Description	**Health and Wellbeing** Failure to provide the tools and resources or appropriate support to communities to aid with good health and wellbeing may lead to a continuing decline and result in additional strain on public services, disruption to education, increased inequality and associated economic impacts
Risk Score: 89	**Controlled Risk Score:** 63

Mitigation / First Line (business operations / management controls)

- Tackling poor air quality through streets for people initiative
- Access to free gym and swimming in council leisure centres
- Partnership with Southwark Food Action Alliance
- Better Living Fund
- Partnership working with NHS and voluntary / community organisations to provide a broad range of support in local neighbourhoods
- Partnership Southwark – Health and Care Plan 2023 – 2028
- Joint Health and Wellbeing Strategy 2022 – 2027
- Joint Health and Wellbeing action plan 2025 – 2027
- Tobacco Control Strategy 2024 – 2030
- Provision of community facilities in new build council homes developments, e.g. green spaces, playgrounds, Multi-Use Games Areas (MUGAs), medical surgeries etc.
- Cross-departmental working to ensure better air quality in new council homes sites.
- Joint Commissioning arrangements with NHS Integrated Care Board to strengthen the partnership between the NHS and local government and to tackle health equality within Southwark

Second Line (oversight functions)

- Health and Wellbeing Board
- Partnership Southwark Strategic Board
- Southwark Joint Strategic Needs Assessment
- Health and Social Care Scrutiny Commission

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- South East London Joint Health Overview and Scrutiny Committee

Assessment of Assurance

There is a range of assurance sources across the three levels.

Risk Description	**Crime and Antisocial Behaviour** Failure to tackle crime and anti-social behaviour and / or work effectively with partnership organisations such as community groups and the Met Police in tackling these issues within the borough may lead to social fragmentation as affected communities could experience reduced social cohesion, increased isolation and division and economic consequences
Risk Score: 64	**Controlled Risk Score:** 20

Mitigation / First Line (business operations / management controls)

- Southwark Women's Safety Charter
- Safer Neighbourhoods Team in place
- Partnership working with Met Police and community organisations
- Programme of improving neighbourhood areas and public spaces for e.g. by improving street lighting
- Integrated Offender Management
- Minimise void times on new council homes, ensuring they are let as soon as they are ready
- Work with Secure By Design to ensure new council homes have built-in passive systems to deter crime
-

Second Line (oversight functions)

- Environment, Community Safety and Engagement Scrutiny Committee
- Southwark Community Safety Partnership Strategic Needs Assessment
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Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- Southwark Policing Oversight Board
- Southwark Community Safety Partnership including Combatting Drugs Partnership
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Assessment of Assurance

The system of controls is generally adequate and operating effectively. Following the independent review of Community Safety commissioned by the council which recommended six key changes to the current operating model: better use of shared intelligence; realigning teams to support neighbourhood working; identifying and focusing on no more than five hotspot areas; launching a real-time dashboard for decision-makers; and adopting a test-and-learn mindset. These are at the heart of a new approach to community safety and continue to be delivered. As noted in the reports to the council's former cabinet in September 2025 and Environment, Community Safety and Engagement Scrutiny committee in November 2025, good progress had already been made.

Risk Description	**Building Safety and Compliance** Failure to comply with Building Safety Act and Fire Safety Act regulations and / or compliance requirements breaching housing regulations resulting in risk to life, reputational damage and financial impact
Risk Score: 70	**Controlled Risk Score:** 44

Mitigation / First Line (business operations / management controls)

- Regular fire risk assessments to determine adequacy of existing fire precautions, with action plan for any additional measures needed
- Physical assessment of high-rise buildings reviewed
- True Compliance system in place to ensure monitoring allocation and progress
- Compliance servicing team in place to oversee mandatory compliance reporting in gas, fire and electrical safety and legionella, lift servicing and asbestos, sharing insight of risks and identifying gaps
- Compliance team will share insight and risks, while providing technical expertise and data
- Contract procurement monitoring and review

Second Line (oversight functions)

- Building Safety Board
- Monitoring reports to SMT and CMT

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- Regulator of Social Housing
- Building Safety Regulator
- Independent reviews commissioned by senior management

Assessment of Assurance

Assessment of Assurance is good. There are multiple operational controls in place and the use of True Compliance digital system provides additional accountability and audit control. Strong oversight functions with independent assurance from the RSH and Building Safety regulator.

Risk Description	**Cyber Security, IT, Data and Information Management** Total or partial loss of significant core business systems, inadequate data security and the system becoming unfit to meet business needs results in impaired service delivery and performance and impacts on resident satisfaction impacting on the reputation of the council and staff productivity and morale.
Risk Score: 89	**Controlled Risk Score:** 71

Mitigation / First Line (business operations / management controls)

- Robust system back-up, firewall, anti-virus and cyber security arrangements in place through council's IT team and the managed IT shared service
- Migration of software solutions to hosted managed services in the cloud
- Appropriate contractual assurance for both cloud based and hosted services
- Ensure all hardware and software is supported for security updates
- Regular maintenance and update of disaster recovery and business continuity plans
- IT capital improvement programme to continue to bring infrastructure up to an efficient and current standard
- Effective policies, guidance, training and controls to ensure staff compliance, provided and updated regularly by the IT shared service
- Training and awareness of staff both ongoing and through induction
- Development of full insurance cover led by shared service as main provider of infrastructure security
- Digital Strategy and Maturity Assessment
- Defined and tested recovery point objectives, and recovery time objectives for our Tier 1 (Critical), Tier 2 High) applications.

Second Line (oversight functions)

- Alignment to ISO, and, CIS NCSC CAF standards
- Regular oversight by STS and LBS to ensure that all controllable risk is managed and council services protected
- Quarterly SIRO meetings
- Monthly Information Security Forum Meetings.
- Joint Management Board meetings
- Change Advisory Board
- Emergency Change Advisory Board
- Inter Authority Agreement
- Operational Management Group meetings
- Robust information governance arrangements including well defined Data Protection Officer and Senior Information Risk Owner responsibilities
- Vulnerability assessments and penetration testing
- Data protection performance reporting

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- ICO investigations / reviews
- External accreditation eg Cyber Essentials
- Independent Penetration Test on all internal and external systems.
- Annual compliance audit for Payment Process under the PCI DSS standard.
- CJSM Annual Compliance review.
- PSN Code of Connection – compliance validation and
- Annual NHS Data Security & Protection Toolkit compliance review.
- Learning from Westminster / RBK&C recent experience.

Assessment of Assurance

Level of assurance is sufficient and much progress has been made including;

- Cyber Security Strategy has been drafted and under review.
- CJSM – Criminal Justice Secure Mail – Completed 349 security questionnaire.
- Internal Audit – remaining audit actions complete.
- Payment Process Audit (PCI DSS) – Credit / Debit Card compliance audit carried out by Blackfoot Security on payment processing. (Pay360| Worldpay | MS Azure | Gladstone | STS | Card Stream are under scope for review. All information has been provided. Awaiting PCI Auditor to confirm compliance status.

- Security Policies – a number of security policies have been drafted and shared.
- Third Party Due Diligence – Risk Ledger application has been selected to manage 3rd Party Due Diligence.
- PSN Code of Connection (CoCo) – pentest has been completed and remediation action plan underway.

Initiatives include the following:

- Server and Laptop Vulnerability Management - a dedicated team equipped with resources and tools has been established. This initiative significantly enhances the capability to manage and mitigate vulnerabilities across the server and laptop estate, ensuring that these risks are effectively addressed, and security posture is strengthened.
- Laptop Refreshment Program
- The laptop refreshment programme will leverage Microsoft Intune to enhance asset management. This will streamline remote management and application deployment, thereby improving overall operational efficiency and security.
- Leveraging Security Operations Centre (SOC) Intelligence

The integration of the Security Operations Centre (SOC) has markedly increased visibility into both external and internal threats. The ongoing partnership with the NCC Group continues to evolve, providing critical insights and intelligence to proactively defend against potential risks. This will assist and inform new policy and procedures to ensure safer working practices.

- Increased Monitoring and Detection of Network Threats

Investment in next-generation network appliances, which offer advanced threat detection capabilities. This investment provides deeper insights into threats targeting external assets and supports the expansion of the council's cybersecurity infrastructure.

Risk Description	**Recruitment, retention, resources and capacity** A shortage of appropriately skilled and experienced staff compromises the ability of the council to deliver services and key priorities creating increased pressure on existing staff which may result in low morale, increased stress and sickness levels and an impact in performance across all departments. Staffing issues also inhibit the operation of an effective workforce strategy in having an engaged, motivated workforce, inclusive workplace, and a 'one council' approach resulting in poor organisational behaviours, culture and practices.
Risk Score: 76	**Controlled Risk Score:** 69

Mitigation / First Line (business operations / management controls)

- Investment in a professional resourcing service supported by new recruitment processes and procedures
- Targeted recruitment campaigns
- Council plan commitment for key-worker housing with focus on social workers, occupational therapists and teachers
- Learning and development programmes to support upskilling and career progression
- Targeted use of apprenticeships (new hires and existing staff) to address skills gaps
- Revised HR Business Partnering offer with a greater focus on workforce planning including succession planning
- Bi-Annual staff survey to measure employee sentiment
- New ERP software to be rolled out in 2027, currently in design
- Enhanced internal communication and engagement programme, including annual expo and staff awards
- Design and delivery of people strategies

Second Line (oversight functions)

- Workforce reporting including publication of annual workforce report
- Forthcoming chief executive's performance dashboard
- Quarterly reporting to DMTs and JCCs
- Reports to CMT, Overview and Scrutiny, Audit, Governance and Standards Committee, and Executive

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- Some external accreditation – eg. annual review of our accreditation with the Institute for Leadership and Management, Disability Confident accreditation, the Mayor of London's Good Work Standard accreditation

Assessment of Assurance

There is a moderate level of assurance. Work is underway to enhance the council's offering through the People Plan, improvements made to the recruitment process, apprentice, internship and graduate programmes in place and professional development available for existing staff through sponsorship and management development.

Risk Description	**Medium Term Financial Planning** Future budgets (General Fund and HRA) for the council are not sufficiently robust, especially in light of the current economic climate e.g. interest rate volatility and future local government funding changes resulting in restricted council resources, compromised delivery of council services and strategic priorities and/or risk of service failure, increased external scrutiny and reputational damage which also potentially due to unprecedented financial pressures, impact the council's reserves restricting the council's flexibility
Risk Score: 88	**Controlled Risk Score:** 76

Mitigation / First Line (business operations / management controls)

- 3 year approved budget in place 2024/2025 – 2026/2027. Planning underway for 2027 onwards in the context of significantly reduced funding position
- Planning as far as possible future budgets to show financial risks
- Active lobbying of government from various areas within the council to seek funding clarity
- Creation of options which reflect the council's priorities and ambitions and safeguard the provision of mandatory functions
- Active engagements through S.151 Chief Finance Officer networks to seek clarity on future funding
- Maintenance of adequate levels of balances and reserves

Second Line (oversight functions)

- Budget challenge panels and regular budgeting report system in place including to scrutiny and executive
- Oversight and scrutiny by Audit, Governance and Standards committee
- Statutory reporting on robustness of budget estimates
- Reports to CMT
- Reports to Executive
- Overview and Scrutiny Committee review
- Budget approved by Council Assembly
- Annual Treasury Management Strategy

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- External Audit

Assessment of Assurance

There is a range of assurance sources across the three lines and controls in place are proportionate to the risk. However the Fair funding Review has seen Southwark lose significant sums of government income on the General Fund side coupled with an overspend in some key demand led areas.

Risk Description	Key Providers and Partners
	The unexpected failure or non-contractual compliance of a key existing or future provider / partner / contractor resulting in serious disruption to a critical service and potential increased expenditure and need for resources to provide an alternative solution with resulting potential reputational damage. Inflationary pressures as a result of general market conditions such as increasing costs and lack of capacity, UK government policy or other sources increases the budget pressures already being faced by the council.
Risk Score: 60	**Controlled Risk Score:** 34 34

Mitigation / First Line (business operations / management controls)

- Robust procurement and contracting processes in place safeguarding against foreseen failure
- Evaluation of third sector grant programmes
- Contingency and business continuity plans to be maintained
- Backup contractors in place where appropriate
- Robust contract monitoring in place including regular spend and budget reviews
- Negotiation with existing providers on contract increases being applied

Second Line (oversight functions)

- Reports to CMT
- CSO's and procurement guidance / framework
- KPIs and performance reporting to departmental and corporate contract review boards

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit

Assessment of Assurance

There is a range of assurance sources across the three levels. The Procurement Framework along with the requirements under The Procurement Act (2023) have specific obligations for contracting authorities on the reporting and monitoring of contracts aiding with minimising unexpected failure. The establishment of a new leadership post should drive this agenda forwards.

Risk Description	**Capital Programme and Major Projects** The substantial commitment within the 10 year capital programme is not matched by resources, including any impact on property transactions arising from unavoidable external events leading to delays and cancellation in delivery or additional borrowing required causing damage to the council's ability to meet long term priorities and resulting in short term financing or funding implications
Risk Score: 88	**Controlled Risk Score:** 69

Mitigation / First Line (business operations / management controls)

- Re-costing and prioritisation of the council's capital programme
- Ongoing quality assurance of processes to mitigate scope for challenge
- Close inter-departmental working with colleagues to develop overall planning strategies
- Work with press office and key partners to manage communication
- Key contracts and frameworks being put in place by the council
- Appropriate financial provision (MRP) to secure borrowing risk provided for within the HRA and General Fund accounting framework
- Monitoring and regular reporting on value and timing of receipts and expenditure
- Disposal of surplus assets
- Maintenance of reliable cash flow forecast

Second Line (oversight functions)

- Reports to CMT
- Reports to Executive
- Adherence to the prudential code that regulates and contains council borrowing and the delivery of the annual treasury management strategy
- Capital bids presented to and scrutinised by a new Capital Board

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- External Audit

Assessment of Assurance

There is a range of sources across the three levels providing adequate assurance. Increased flexibility on Right to Buy receipts will enable the council to build or acquire new homes without additional borrowing and the re-costing and prioritisation of the capital programme has also reduced borrowing to prevent unsustainable debt servicing costs.

Risk Description	**Unforeseen Major Event** An unforeseen major event occurs which affects critical services and the council's ability to deliver business as usual resulting in financial strain and impacts on the resilience and wellbeing of staff
Risk Score: 83	**Controlled Risk Score:** 70

Mitigation / First Line (business operations / management controls)

- Maintain and update disaster recovery and business continuity plans
- Engagement with contractors and partners to check their preparedness
- Flexible, trained staff in place to respond to changes in demand
- Dedicated Borough Emergency Control Centre in Tooley Street offices enabling an immediate response to any incident arising

Second Line (oversight functions)

- Council's business continuity policy and emergency plan in place, reviewed at least annually and approved by Executive
- Undertake practice scenarios to check robustness of business continuity plans

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit

Assessment of Assurance

Level of assurance is moderate. There is a range of sources of assurance across the three lines but the unpredictable nature and timing of a major event could affect the risk profile.

Risk Description	**Occupational Health & Safety** Failure to provide adequate provision of protection of staff, elected members, residents and all relevant stakeholders leading to their safety and / or mental health and wellbeing being compromised. Failure to meet various statutory compliance requirements across different council services leads to regulatory action including the possibility of monetary fines resulting in reputational damage and financial strain.
Risk Score: 76	**Controlled Risk Score:** 61

Mitigation / First Line (business operations / management controls)

- Wellbeing initiatives are in place
- Cautionary contact warning system in place
- H&S management system in place, with associated policies and procedures regularly reviewed and updated
- Regular communication and commissioning of H&S training including a new e-learning framework
- Use of Assure system for incident reporting / capture of risk assessments
- Three year lone worker device contract in place
- Establishment of a health surveillance programme for staff in progress
- Occupational Health contract in place
- Statutory compliance programme in place across the corporate estate and managed by Corporate Facilities Management

Second Line (oversight functions)

- Assurance checks and service audits carried out on a regular basis
- Risk assessments in place including individual risk assessments where required
- Established H&S committees in place with regular meetings throughout the year
- Reports to CMT

Third Line (Internal Audit / other independent assurance providers)

- Internal Audit
- HSE inspections / reviews (enforcement related)
- Various external accreditation / inspections completed at a local level e.g Leisure Centres

Assessment of Assurance

Level of assurance is moderate. There is a range of assurance sources across the three lines however some general oversight at a high level may be missing in terms of reporting of H&S / statutory compliance across the council estate. Proactive work continues to improve this through the Corporate Real Estate / Strategic Asset Management Transformation Programmes.
A H&S Plan has now been developed featuring a H&S action plan.

Agenda Item 11

Meeting Name:	Audit, Governance and Standards Committee
Date:	8 September 2026
Report title:	Budget Process
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	n/a

RECOMMENDATION

1. That the audit, governance and standards committee notes the budget process at appendix 1, which sets out the council's budget process, the financial planning and management cycle, the budget-setting timetable, and the planned community engagement activity for the 2027-28 budget and medium term financial strategy.

2. That the committee notes the arrangements for member oversight, scrutiny and formal budget approval, including the role of Executive, Overview and Scrutiny, and Council Assembly in the budget-setting process.

BACKGROUND INFORMATION

3. The Audit, Governance and Standards Committee has requested an item on the council's budget process, with particular reference to the planned community engagement exercise taking place later in the autumn. The attached appendix has been prepared to provide members with an overview of the key stages, controls and decision points in the council's budget cycle.

4. The council's financial planning and management cycle brings together medium term financial strategy (MTFS) development, annual budget setting, in-year budget monitoring and year-end closing. This cycle supports the development of a balanced annual budget, informs the council's medium term planning assumptions, and provides a framework for identifying and responding to financial risks during the year.

5. The presentation explains the main elements of the council's financial framework, including the General Fund, capital programme and ring-fenced accounts such as the Housing Revenue Account (HRA), Dedicated Schools Grant and Public Health funding. It also sets out how the opening budget position is developed by reassessing expected income and spending pressures before identifying the budget gap to be addressed through the budget-setting process. New projects in the capital

programme require a signed business case and are assessed within the council's annual affordability envelope, with Capital Board considering need, council priorities, funding, deliverability and long-term financial impact before leadership and Executive approval.

KEY ISSUES FOR CONSIDERATION

Budget process and financial planning cycle

6. The budget process starts from the previous year's approved budget and then updates both expected income and expected expenditure. Income assumptions include government funding, Council Tax, other grants and income. Spending assumptions include the rebasing of the approved budget, contract inflation, pay awards and other unavoidable spending pressures.

7. The difference between expected spending and expected income forms the opening budget gap. The opening position is reported in July and is then refined through updated funding assumptions, spending forecasts, savings proposals and engagement activity before final recommendations are brought forward for approval.

8. The attached presentation states that the budget gap for the three financial years from April 2027 to March 2030 is estimated at around £102m, following changes to the Government's funding formula and updated assumptions on pressures, commitments and funding. This figure represents the cumulative gap to be addressed through the medium term financial strategy and annual budget process.

Budget-setting timetable

9. The budget timetable is structured in stages. The early stage, from July to October, focuses on the opening MTFS position, corporate management team (CMT; the chief executive, assistant chief executive, and strategic directors) and Executive Member away days, development of departmental and transformation savings, and preparation for the autumn budget and community engagement.

10. The approval stage, from November to January, includes scrutiny of budget proposals, equalities impact assessment, draft budget reporting to Executive, draft fees and charges, climate budget reporting, HRA rent setting, the provisional local government finance settlement and continued community engagement.

11. The final stage in February is when Executive recommends a balanced 2027-28 budget and medium term financial strategy to Council Assembly. Council Assembly is responsible for council tax setting, formal approval of the balanced 2027-28 budget and approval of indicative budgets for 2028-29 and 2029-30.

Community engagement

12. The planned engagement activity is intended to support wider understanding of the budget challenge and provide opportunities for residents and stakeholders to contribute views before final decisions are taken. The presentation outlines a five-week campaign from mid-September to mid-October, combining neighbourhood sessions, library, leisure centre and park-based activity, a Tooley Street drop-in session and a digital survey budget tool.

13. The engagement plan includes activity across 18 library, leisure centre and park locations, 10 neighbourhood sessions, one Tooley Street day session and a digital survey with a target of 2,000 responses. The summary in the presentation refers to three engagement officers, four neighbourhood officers, three in-person activities per week across five weeks and 28 in-person events.

Policy framework implications

14. The report supports transparency and accountability in relation to the council's budget process. The formal budget and policy framework decisions will be brought forward through the relevant Executive and Council Assembly reports as part of the annual budget-setting process.

Community, equalities (including socio-economic) and health impacts

Community impact statement

15. This report is for noting and does not itself make budget decisions or approve savings proposals. Equalities and socio-economic impacts arising from specific budget proposals will need to be considered through the relevant budget reports and equality impact assessment process. The planned engagement activity provides an opportunity to gather views from residents and stakeholders before final budget decisions are recommended.

Equalities (including socio-economic) impact statement

16. There are no direct equalities implications in the proposals in this report.

Health impact statement

17. There are no direct health impacts arising from this report. Any health impacts associated with individual budget proposals will be considered through the relevant decision-making process.

Climate change implications

18. There are no direct climate change implications in the proposals in this report.

Resource implications

19. There are no direct resource implications in this report.

Consultation

20. The report describes the planned community engagement activity for the budget campaign. The presentation sets out planned in-person and digital engagement activity across September and October, with details of locations, activity types and target response levels.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix 1	Budget process

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Tim Jones, Director of Finance	
Version	Final	
Dated	24 August 2026	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	No	No
Strategic Director, Resources	No	No
Executive Member	No	No
Date final report sent to Constitutional Team		25 August 2026

Council Budget Processes

Audit, Governance & Standards Committee
September 2026

Southwark Council

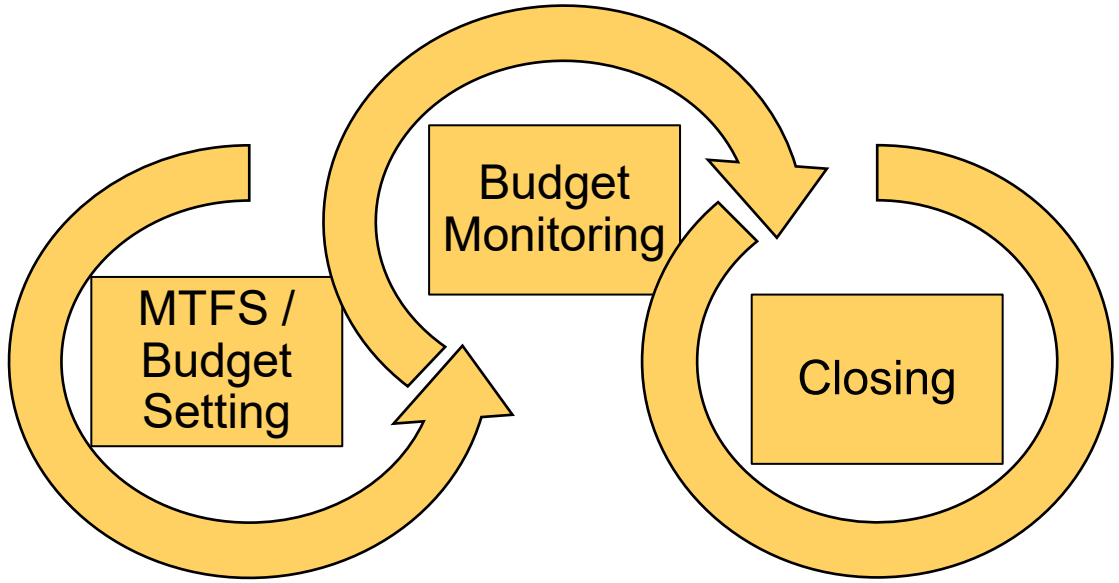
Financial Planning & Management Cycle

- **Medium Term Financial Strategy**
  - 3-5 year financial projections, strategy and plan to set a balanced medium-term budget
  - Aligned with corporate priorities and Borough Action Plan
  - Annual updated to reflect changes

- **Budget Setting**
  - Detailed annual budget for the year ahead – balanced budget a legal requirement

- **Budget Monitoring**
  - In year monitoring of performance (actual and projected activity) against annual budget (predicted activity)
  - Early Identification of issues, identified actions to control and mitigate
  - Provides insight into future years financial modelling (MTFS)

- **Closing**
  - End of financial year – capture of final outturn against budget for the year and implications on financial position for the council.



Ring-fenced accounts



General Fund

Day to day activity for the main council services funded from grants, fees, redistributed NNDR and council tax.



Dedicated Schools Grant (DSG)

Funding for Early Years, High Needs and Schools Direct Funding. National Funding Formula for distribution.



Housing Revenue Account

Ring-fenced Housing Account recording income and expenditure on running housing stock and other services to council tenants



Public Health (PH)

Ring-fenced account for grant received for meeting PH challenges and outcomes via local initiatives.

Capital Programme & Projects

Capital programmes and projects

Every bid needs a signed business case; competing schemes are prioritised within a prudent annual funding envelope

AFFORDABILITY ENVELOPE

Set annually from available funding

- Grants, external contributions and S106/CIL
- Funding moved from completed projects
- Minimise council borrowing as this creates financing costs

PRIORITISATION TEST

Capital Board considers

- Statutory and health & safety requirements
- Council priorities and maintaining current assets
- Invest-to-save, avoidable cost and reputational risk
- Funding source and long-term financial impact

PRIORITY & CASE **COSTS & FUNDING** **DELIVERY & IMPACT**

Business case: background • priority • procurement • yearly and full costs • revenue impact • completion period

JULY **Submit July 2026 • Executive decision 15 Sep 2026**

OCT **Submit Sept 2026 • Executive decision 8 December 2026**

Capital Programmes and Projects

From service priority to Executive approval — with affordability tested before commitments are made

1 PRIORITISE

Prioritise needs

Identify projects that deliver council priorities.

2 PREPARE

Complete the case

Business case prepared for costs, benefits and timing.

3 REVIEW

Review & rank

Capital Board assesses compliance and funding arrangements

4 APPROVE

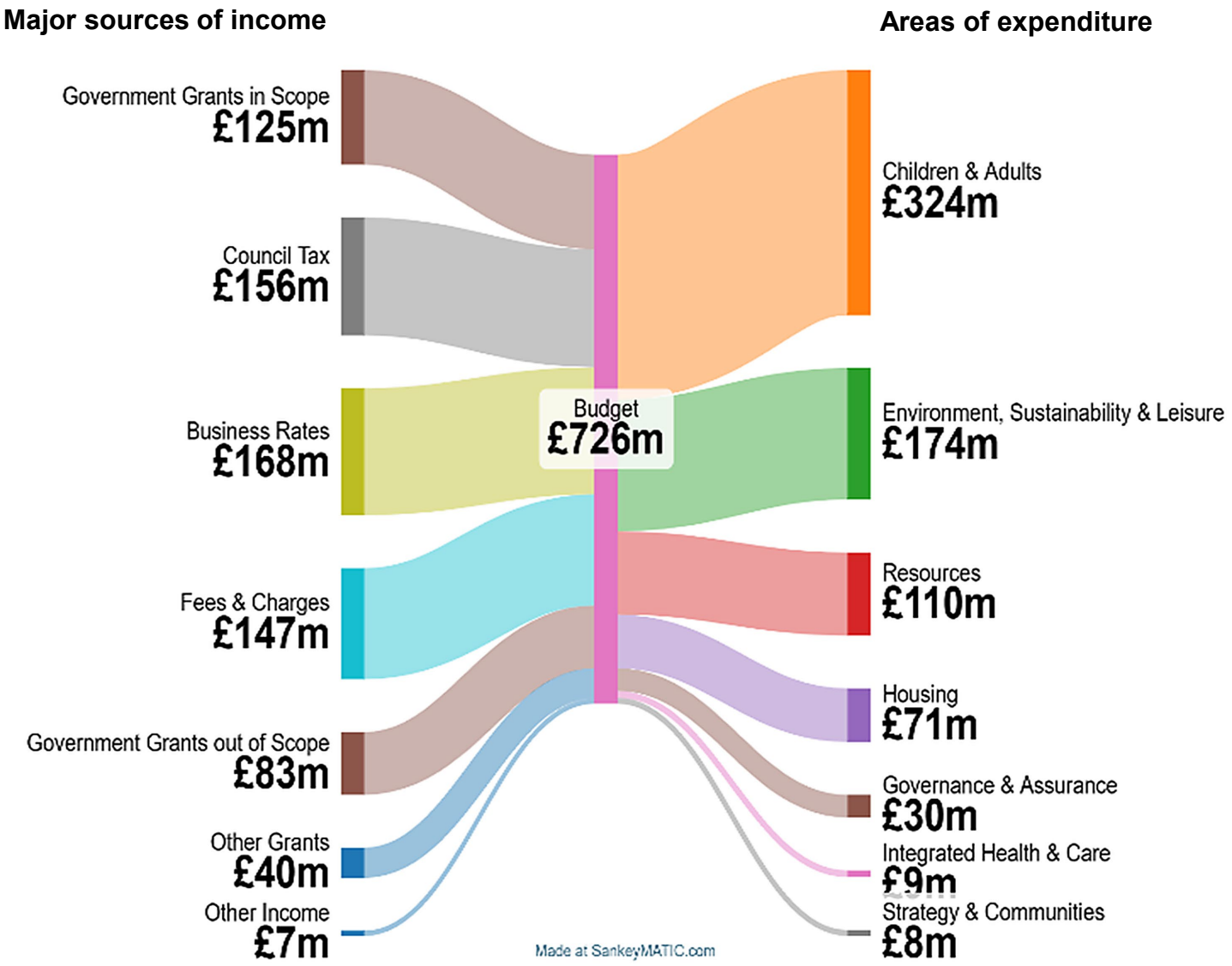
Recommend & approve

Leadership confirms the portfolio; Executive gives final approval. Approved Bids included in the capital programme

Sources of income and areas of expenditure

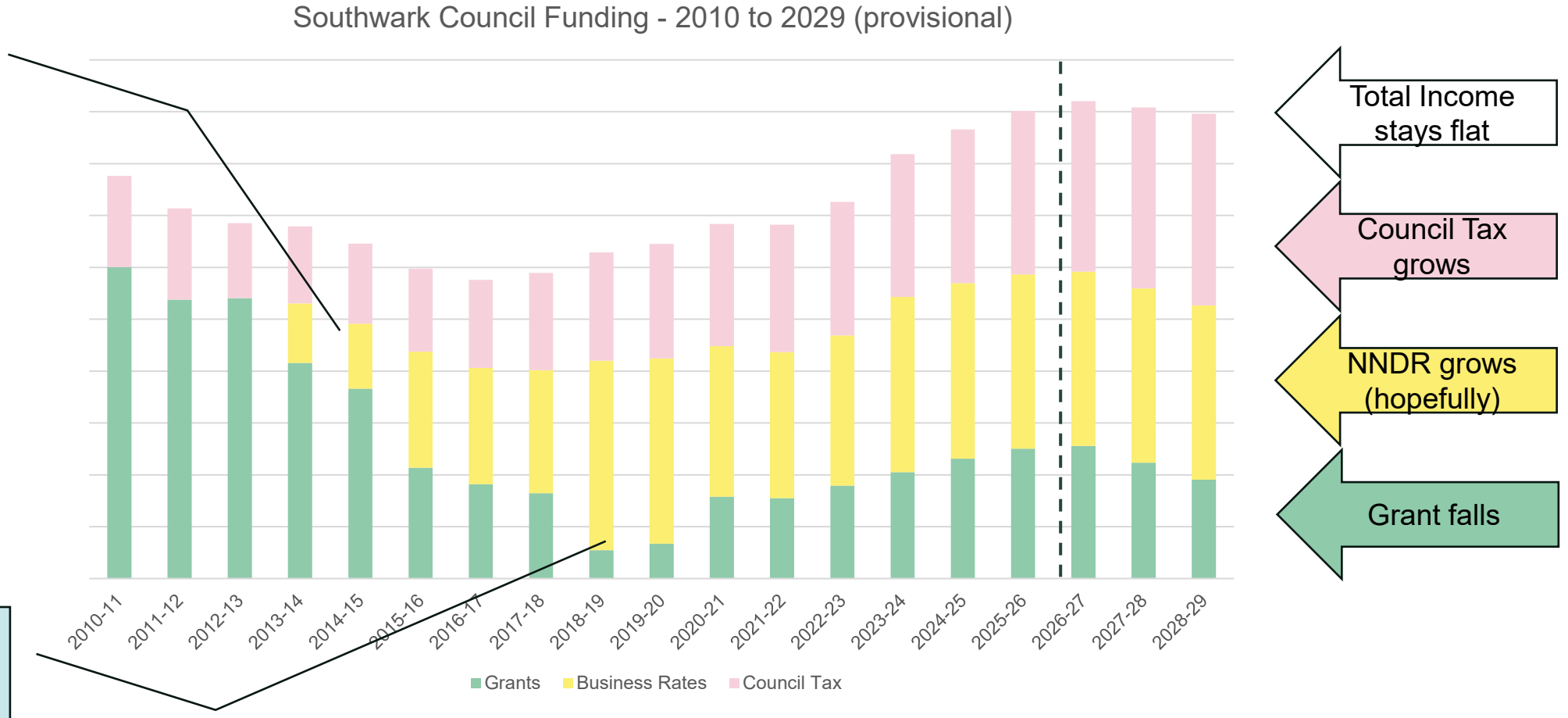
The **General Fund** is the main revenue fund from which the cost of services is met and includes the net cost of many of the public facing services in the council.

This chart outlines where this spend is allocated and the funding sources supporting the spend.



Local Modelling

Business Rates Retention Starts



Total Income stays flat

Council Tax grows

NNDR grows (hopefully)

Grant falls

100% Business Rate Retention Pilot (2yrs)

But as funding stays flat, costs continue to rise…

How the budget starting position is built

Start with last year's budget, then reassess both income and spending

EXPECTED INCOME

Review every funding source

- Government funding, including the Fair Funding Review
- Council Tax
- Other grants and income

EXPECTED SPENDING

Rebase last year's approved budget

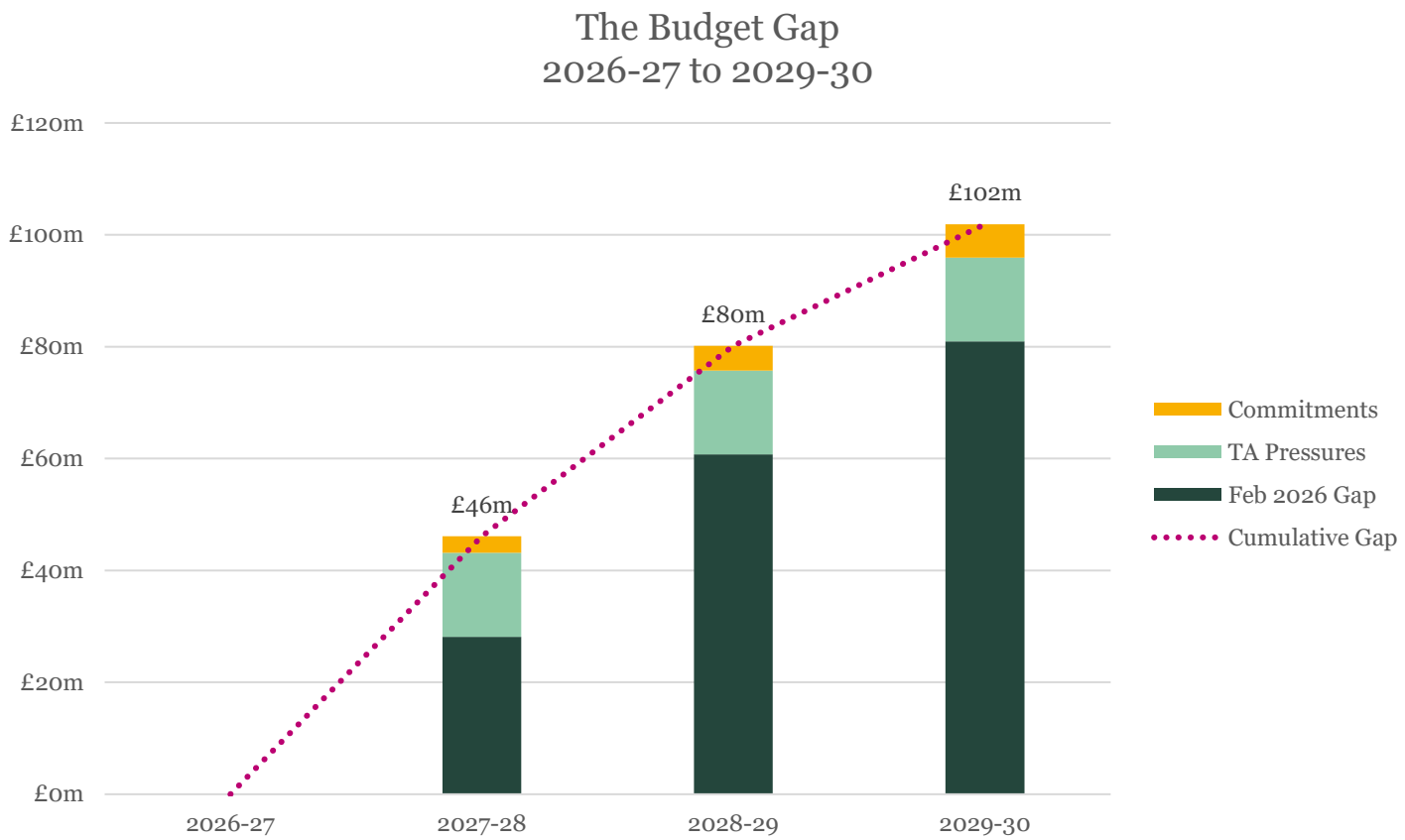
- Contract inflation
- Pay awards
- Other unavoidable spending pressures

EXPECTED SPENDING – EXPECTED INCOME = OPENING BUDGET GAP

Reported in July as the starting position

JULY	**Publish the opening gap and planning assumptions**	**THEN**	**Refine funding and spending forecasts and assumptions, drawing on community engagement to inform the budget process and reflect wider values and priorities.**

The Gap

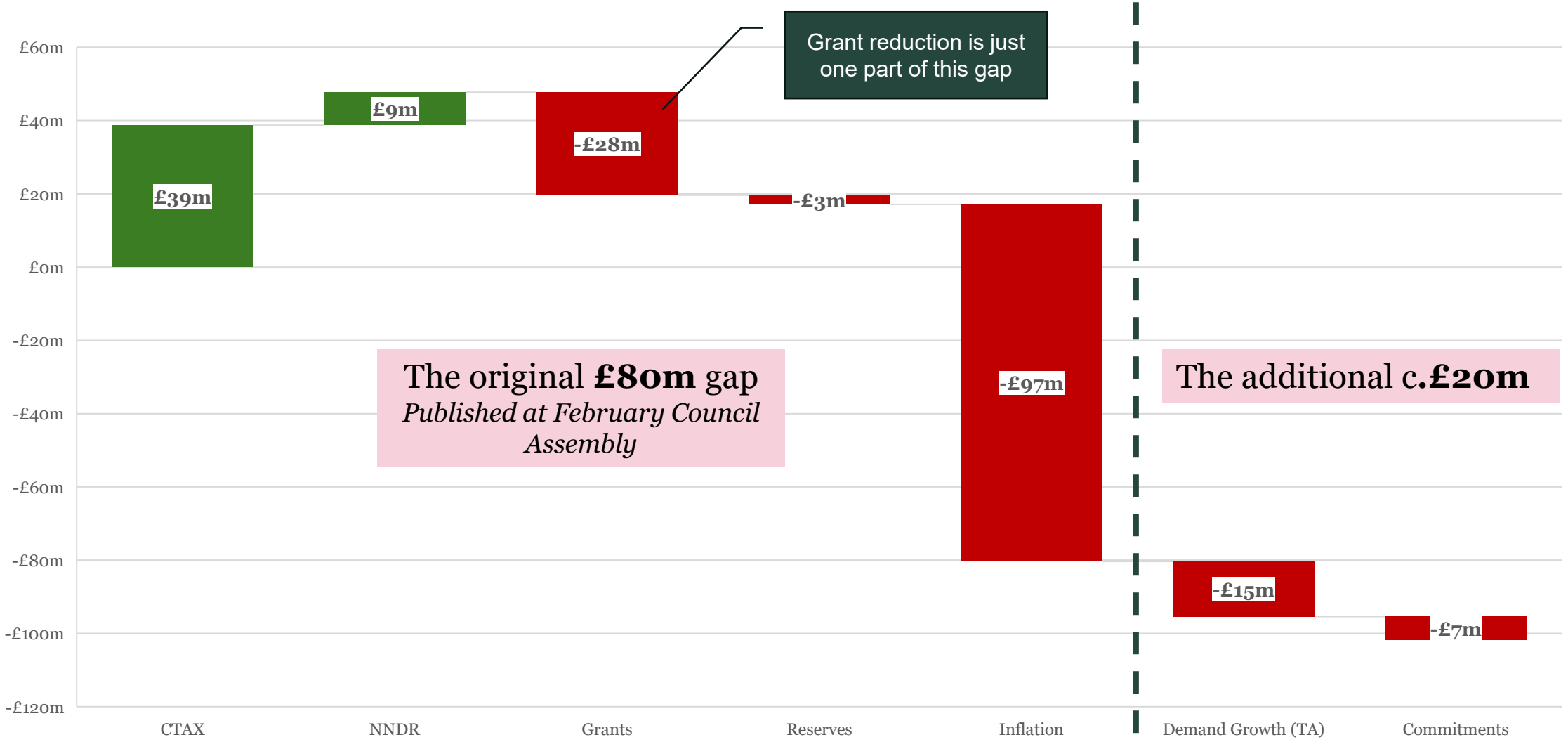


The budget gap for the three years from April 2027 to March 2030 is now estimated at

£102m.

This follows the Government's changes to our funding formula

The components of the gap



Budget-setting timeline – early stages

July to October: shaping the draft budget

JULY

Executive — MTFS report

High-level scene setting 2027-28 to 2029-30

AUGUST

CMT and Executive Members away days

Discussion on Departmental and Transformation savings

SEPTEMBER

Leader's approval of Departmental and Transformation savings

OCTOBER

UK Autumn Budget 2026

Begin Community Engagement

Budget-setting timeline – approval stages

November to January: scrutiny, settlement and final recommendations

NOVEMBER

Overview and Scrutiny

Scrutiny of Budget proposals including Equality impact statement

Continue and conclude community engagement

DECEMBER

Executive — MTFS report

Draft 2027-28 budget
Draft fees and charges
Climate budget
Outcome of community engagement
HRA rent setting

Provisional Local government finance settlement

JANUARY

Council Tax Base report to Executive

HRA budget report to Executive

Budget-setting timeline – final approval

February: from Executive recommendation to formal approval

FEBRUARY

Executive — MTFS

Recommend a balanced 2027-28 budget and MTFS to Council Assembly

Final Local Government Finance Settlement

Council Assembly

Council tax setting; balanced 2027-28 budget; indicative budgets for 2028-29 and 2029-30

Community Engagement

Summary
X3 engagement officers.
X4 neighbourhood officers
3 in-person activities per week across 5 weeks
28 in-person events

Digital Survey – Budget Tool

Target responses: 2,000

Activity Type	Frequency	Typical Attendees
Libraries, Leisure Centres & Parks	18 locations	50 per session
Neighbourhood Sessions	10 sessions (2 per week)	40 per session
Tooley Street Day session	1	50
Digital Survey - Budget Tool*	Throughout campaign	Total target 2000 responses

*shared via in-person engagement activities, comms channels and via VCS

Day	W/c 14th September	W/c 21st September	W/c 28th September	W/c 5th October	W/c 12th October
1	Neighbourhood session Burgess Park Tooley Street drop-in	Neighbourhood session Heritage Centre Una Marson	Neighbourhood session Canada Water LC Canada Water library	Neighbourhood session Camberwell Library Camberwell LC	Neighbourhood session John Harvard
2	Neighbourhood Session Castle LC	Neighbourhood Session Dulwich Library Dulwich LC	Neighbourhood Session Nunhead Library	Neighbourhood Session Geraldine Mary Harmsworth Park	Neighbourhood Session
3	Peckham Library Peckham LC	Dulwich Park	Peckham Rye Park	Burgess Park	Southwark Park

Agenda Item 12

Meeting Name:	Audit, governance and standards committee
Date:	8 September 2026
Report title:	Housing Revenue Account (HRA) Governance and Financial Monitoring
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	N/A
From:	Strategic Director of Resources

RECOMMENDATION

1. That the audit, governance and standards committee note the updated position on Housing Revenue Account (HRA) governance, financial monitoring and budget recovery activity.

PURPOSE OF THE REPORT

2. This report provides an updated position on the governance arrangements for the Housing Revenue Account (HRA), with a focus on budget recovery, financial monitoring and the forward budget-setting process for 2027-28. It updates the previous report to the audit, governance and standards committee in November 2025 by incorporating the latest published 2025-26 revenue and capital outturn position for the HRA.

3. The report supports the committee's oversight role in ensuring transparency, accountability and value for money in the management of the HRA. It also sets out the next stage of HRA financial planning, which will include a full HRA Business Plan, outputs from the Council Homes Investment Strategy, the current position on the 2027-28 savings programme, and any additional growth and inflation requirements for the new financial year.

BACKGROUND INFORMATION

4. Southwark Council manages its council housing stock through the Housing Revenue Account, a ring-fenced landlord account. The HRA must fund landlord services, housing management, repairs and maintenance, capital financing, and investment in existing and new council homes from its own income streams, primarily rents, service charges and other landlord income.

5. The HRA Recovery Plan continues to provide the framework for restoring financial resilience following previous financial pressures. The current phase focuses on cash-limited budgets, delivery of savings, control of

repairs expenditure, income maximisation, management of the void rent loss, rebuilding reserves and ensuring the Housing Investment Programme (HIP) remains affordable over the medium and long term.

6. The Good Landlord Plan and regulatory improvement programme are also important to future HRA sustainability. They are expected to support service improvement and future financial benefits, although the bulk of those benefits are not expected to be realised until 2027-28.

HRA 2025-26 REVENUE POSITION

7. The 2025-26 outturn position, reported to July Executive, showed that the HRA closed the year with a net adverse variance of £1.4m. This was an improvement from the £7.3m adverse variance reported at month 6, reflecting tighter expenditure control in the latter part of the year. However, the final position confirms that the HRA remains under financial pressure and is not yet on a sustainable footing.

Income

8. The principal revenue issue at outturn was income. Total HRA income was £10.6m below budget, driven primarily by the rent-setting position for HRA properties used for temporary accommodation. These have now been set at formula rent from 1 April 2025, in line with the 2020 Rent Standard, which resulted in an £8.3m adverse variance after routine stock movements. A provision has been recognised to reflect the estimated cost of potential refunds arising from a review of historic tenant charges. The provision has been determined using an updated methodology and reflects the best estimate of the Council's obligations based on information available. The provision will continue to be reviewed and refined as further information becomes available.

9. In addition, there were rental income losses from empty properties classed as ‘Voids’, contributing £2.8m to the end of year position. Again, this was an improvement from the £3.5m forecast at month 6, which reflected progress in void turnaround performance. Although the extended turnaround times, higher void volumes and delays in letting new build stock continued to constrain income recovery.

Expenditure

10. Repairs and Maintenance ended the year broadly in line with budget, with only a modest overspend. This included £2.5m of works at the Aylesbury estate to bring long-term empty homes back into use. While this created an in-year cost pressure, the works are expected to improve the position from 2026-27 by increasing rental income and reducing the need for temporary accommodation. The pressure was partly offset by lower staffing costs and reduced contractor expenditure.

11. Landlord Services delivered a favourable year-end position, primarily due to lower energy costs arising from changes in energy supply arrangements, alongside staffing vacancies and underspends within support services. Southwark Construction reported a small overspend, reflecting increased

investment in planning, design and feasibility work to support future delivery, where a greater proportion of costs are charged to revenue budgets.

Financing, reserves and recovery

12. At outturn, interest payable was lower than budgeted for due to reduced capital expenditure and lower borrowing requirements during the year. Revenue resources continued to support capital investment, although the level of contribution was reduced to strengthen provisions relating to temporary accommodation properties. The balance between revenue contributions and borrowing will continue to be reviewed to support the long-term affordability and sustainability of the housing investment programme.

13. Taking all movements together, the HRA ended 2025-26 with an overall deficit of £1.4m. The final position showed that financial control continued to improve during the year and that the HRA position stabilised compared with earlier forecasts. However, significant risks remain, particularly around income recovery, void performance, capital financing, construction cost inflation, higher interest rates and unfunded regulatory requirements. Continued delivery of the HRA Recovery Plan is therefore essential to rebuilding resilience and returning the account to a sustainable position over the medium term.

2025-26 CAPITAL POSITION – the Housing Investment Programme (HIP)

14. The HIP has two main strands: the New Build and Estate Renewal programme, which delivers new council homes, and the Repairs and Maintenance programme, which supports the council's statutory landlord responsibilities to maintain safe, decent and sustainable homes. As at 31 March 2026, the council had delivered over 3,200 new council homes, including 333 completed during 2025-26, despite the challenging economic and construction climate.

15. The Housing Investment Programme (HIP) is forecast to require £1.3bn of expenditure over the period 2025-26 to 2034-35. The programme comprises £719m for Asset Management, £525m for New Build and Acquisitions, and £26m for Other Programmes. The remaining borrowing requirement for the HIP over the programme period is £332m. In 2025-26, HIP outturn expenditure was £198m, £31m below that forecast at month 6, primarily due to slippage across all programme areas. It is anticipated that this slippage will be largely recovered during 2026-27.

16. The 2025-26 HIP was funded from a mix of capital receipts, the Major Repairs Reserve, capital expenditure charged to the revenue account, grants and external contributions, Section 106 income and Green Buildings Fund resources and council borrowing. Of the £198m spent in 2025-26, £47.3m, or 24%, was funded from borrowing. This highlights the continued reliance on borrowing to support the programme and reinforces the need to manage affordability, interest costs and the timing of future capital investment through the HRA Business Plan.

17. Global geopolitical instability continues to create volatility in energy markets and supply chains, affecting the cost and availability of key construction materials, including steel, cement and mechanical and electrical components. Higher energy prices also increase manufacturing, transport and on-site construction costs. Construction cost inflation therefore remains a significant financial risk for both Repairs and Maintenance and New Build, with continued pressure on labour, materials and energy costs affecting tender prices, contractor capacity, scheme affordability and the risk of procurement or delivery delays.

18. These factors have direct capital affordability implications for the HRA, including increased capital costs, higher borrowing requirements where costs exceed original assumptions, programme delays and rephasing, and reduced market appetite or competition for complex estate renewal schemes. Continued monitoring of inflation, interest rates and wider market conditions will therefore be critical to maintaining programme affordability and delivery momentum.

HRA 2026-27 FINANCIAL POSITION

19. The 2026-27 HRA budget includes a savings requirement of £6m, an increase from the £2.8m reported in the February 2026 cabinet budget Report. The increase reflects additional inflationary and service growth pressures that need to be managed within the ring-fenced HRA budget. The next phase of recovery will therefore focus on converting identified savings into deliverable, recurring reductions in cost and improvements in income. This will require stronger oversight, clear ownership across services and regular challenge through the Budget Recovery Board. Priority areas include improving repairs productivity, reducing void rent loss and maximising income collection.

20. In-year performance, including delivery of the savings programme, will be monitored through the council's financial monitoring arrangements and reported to the Executive through the September and December 2026 revenue monitoring reports. This will be particularly important because the balanced 2026-27 position relies in part on one-off measures.

21. The 2026-27 budget-setting process has also identified a pipeline of longer-term savings and service improvements. These will continue to be developed during the year and will inform the 30-year HRA Business Plan, which is planned to be presented to the Executive in December 2026. This will ensure that short-term recovery action is aligned with the longer-term plan for HRA affordability, investment and resilience.

MEDIUM-TERM FINANCIAL STRATEGY (MTFS)

22. The 2027-28 budget-setting process will need to be developed alongside the full HRA Business Plan. This will provide the framework for testing long-term affordability across revenue, capital, debt financing, reserve levels, savings delivery, investment requirements and service pressures. The

2025-26 outturn report strengthened the case for this work by highlighting the potential impact of the Council Homes Investment Strategy, stock condition survey, retained Right to Buy receipts and the affordability of the capital programme.

23. For 2027-28, the budget-setting process will therefore include:

- A full HRA Business Plan, including updated 30-year assumptions on income, expenditure, borrowing, capital financing and reserves.
- Outputs from the Council Homes Investment Strategy, including stock condition findings, compliance requirements, decent homes, sustainability, and future investment priorities.
- The latest 2027-28 savings programme, including ownership, phasing, deliverability, risk ratings and the distinction between recurring savings and one-off measures.
- Updated growth and inflation requirements for the new financial year, including repairs, maintenance, compliance, staffing, contracts, energy, borrowing and service demand pressures.
- A clear assessment of the affordability of the Housing Investment Programme, including opportunities to maximise receipts, grants, Right to Buy receipts, asset disposals and other external funding to reduce borrowing requirements.

GOVERNANCE FRAMEWORK

24. The HRA governance framework brings together strategic oversight, corporate assurance and operational management to support effective service delivery, regulatory compliance and long-term financial sustainability. Following a commissioned external review in late 2025-26, the council revised the governance arrangements to provide clearer accountability, stronger escalation routes and more consistent assurance over landlord services and HRA recovery. The revised framework was implemented in July 2026 and includes the Southwark Housing Board, Landlord Assurance Panel, HRA Recovery Board and Resident Advisory Panel. Together, these arrangements strengthen member oversight, resident voice, financial grip and assurance over delivery of the HRA Recovery Plan.

25. Strategic oversight is provided through the Southwark Housing Board, which oversees housing performance, improvement activity and compliance with landlord responsibilities. The Landlord Assurance Panel will continue to monitor delivery of regulatory improvement plans, whilst the HRA Recovery Board will maintain focus on delivery of the HRA Recovery Plan and financial recovery objectives. Resident involvement will be embedded through the new Resident Advisory Panel, providing greater resident scrutiny and challenge.

26. Operational delivery and performance management are supported through Housing Directorate management arrangements, contract and programme boards, and service-specific governance forums. These arrangements

provide oversight of key areas including repairs, building safety, voids, income collection, debt recovery, capital delivery and savings implementation, with significant risks and performance issues escalated through the governance structure as required.

27. The new housing performance framework will support governance reporting, providing consistent performance, risk and financial information from operational teams through to senior management and strategic boards. This will strengthen accountability, improve the quality of assurance available to members and residents, and support timely intervention where performance or financial pressures emerge.

28. During the next phase of the Recovery Plan, governance will remain focused on delivery of cash-limited budgets, income recovery, repairs expenditure, void turnaround, savings delivery, reserve management, capital affordability and evidence-based decision-making regarding the release of centrally held growth and contingency budgets. The effectiveness of the revised governance arrangements will be reviewed as implementation progresses to ensure they continue to support both financial sustainability and landlord compliance objectives.

POLICY FRAMEWORK IMPLICATIONS

29. This report does not propose changes to existing policies or introduce new policy directions. This report supports the Council's policy framework by strengthening financial governance and ensuring alignment between the HRA Recovery Plan, Medium-Term Financial Strategy, Good Landlord Plan, Council Homes Investment Strategy and the forthcoming HRA Business Plan. The HRA budget supports safe, secure and well-maintained homes, regulatory compliance, tenant outcomes and statutory landlord responsibilities.

COMMUNITY, EQUALITIES, INCLUDING SOCIO-ECONOMIC) AND HEALTH IMPACTS

Community impact statement

30. The report does not directly propose changes to services for residents or communities. Strong HRA financial governance supports sustainable housing services and investment in safe, affordable and well-maintained council homes.

Equalities (including socio-economic) impact statement

31. The report does not contain proposals that directly impact individuals or groups with protected characteristics. Any future service changes arising from budget decisions will be subject to appropriate equality and health impact analysis.

Health impact statement

32. There are no direct health impacts arising from this report. Nonetheless, effective financial management of the HRA supports the delivery of housing services that contribute to residents' physical and mental wellbeing over the long term.

Further guidance

33. None required.

CLIMATE CHANGE IMPLICATIONS

34. There are no direct climate change implications arising from this report. Climate considerations will need to be addressed through the HRA Business Plan, Council Homes Investment Strategy and future capital investment decisions, particularly where these relate to energy efficiency and sustainability of the housing stock.

RESOURCE IMPLICATIONS

35. The report does not propose new resource allocations or spending commitments. It updates the committee on the HRA financial position, governance arrangements and future budget-setting requirements. Any future financial commitments arising from the HRA Business Plan, Asset Management Strategy, savings programme, growth or inflation requirements will remain subject to formal governance and decision-making processes.

CONSULTATION

36. This report relates to internal financial planning, governance and monitoring. Public consultation is not required at this stage. Relevant officers and governance boards have been engaged through established internal processes.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

37. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
None	

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources	
Report Author	Timothy Jones, Director of Finance	
Version	Final	
Dated	24 August 2026	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	**Comments sought**	**Comments included**
Director of Law and Governance	No	N/A
Strategic Director of Resources	No	N/A
Executive Member	No	No
Date final report sent to Constitutional Team		25 August 2026

Agenda Item 13

Meeting Name:	Audit, Governance and Standards Committee
Date:	8 September 2026
Report title:	Southwark360: Update on the Enterprise Resource Planning (ERP) Replacement programme
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	N/A
From:	Clive Palfreyman, Strategic Director of Resources

RECOMMENDATION

1. That the Audit, Governance and Standards Committee note this update on the delivery plan, benefits and risks of the Southwark360 Programme for replacement of the council's Enterprise Resource Planning system, following the previous report presented in July 2026.

BACKGROUND INFORMATION

2. Southwark has used the SAP Enterprise Resource Planning (ERP) system (Business Suite 7) for HR, Finance, Purchase to Pay and Payroll since 1999. There are several fundamental issues with the current system that require modernisation to support a modern, dynamic organisation:

    a. Reporting for finance, budget and people managers within SAP is limited and time-consuming.
    b. Current system is not mobile enabled or available off-network, so staff require a Southwark laptop to access the system.
    c. To ensure the SAP system provides essential functionality, additional bolt on systems have, over time, been purchased and maintained with varying degrees of complexity and success.
    d. Staff find HR processes difficult to navigate and this has resulted in inefficiencies and compliance challenges.
    e. The system is not easily adapted to policy and legislative changes, requiring reliance on a broad range of support partners and internal resources to maintain it.

3. The current SAP system will go out of support in 2027 and will be retired in 2030. Market testing took place during 2022 along with reference calls to several regional and London local authorities to understand their experiences of implementing ERP solutions.

Programme vision

4. The Programme Vision was developed with sponsors, senior leadership and stakeholders, and was informed and guided by Southwark 2030 and our Technology and Digital Strategy:

   a. Our vision is to enable a resilient, future-ready council that empowers our people, unifies our workforce, and strengthens how we work together.

   b. We will have modern, reliable, and cost-effective tools that allow us to deliver efficiently and make confident data-informed decisions that provide greater financial assurance and control.

   c. Our people will thrive with better systems and clearer processes, enabling them to work smarter in a digital culture, grow together professionally, and shape the future of our council.

5. Southwark360 is a major transformation initiative aligned with the council's strategic objectives and strategies including the Technology & Digital Inclusion Strategy. It aims to improve resident and customer experiences, empower staff with modern and secure technology, and embed a digital-first culture that supports new ways of working. Benefits will be realised through improved contracts, system capabilities, process redesign, and social value contribution.

6. The programme is reshaping core business processes, replacing outdated and fragmented practices with integrated, efficient systems. It follows proven ERP design principles from successful Local Government implementations to ensure sustainable change across services and systems.

Programme procurement

7. Lot 1 Vendor ten-year contract was awarded to SAP for their SAP S/4 HANA Public Cloud ERP Solution, commencing 30 June 2025.

8. Lots 2-5 for the remaining implementation partners were awarded in August 2025 with remaining Lots 6 and 7 for Support and Archiving respectively to be tendered in 2026. Awards were as follows:

   - Lot 2: HCL Technologies UK Limited are the Enterprise Resource Planning System Implementation Partner with a contract for a period of two years, with the option of one further one-year extension.

   - Lot 3: Veran Performance Limited are the Enterprise Resource Planning Business Change Partner with a contract for a period of two years, with the option of one further one-year.

   - Lot 4: HCL Technologies UK Ltd are the Enterprise Resource Planning

Data Migration Partner with a contract for a period of two years, with the option of one further one-year extension.

- Lot 5: Infosys Ltd are the Enterprise Resource Planning Reporting Partner with a contract for a period of two years, with the option of two further one- year extensions.

Programme governance

9. The Programme governance for the Implementation Phase was revised to ensure a streamlined, clear line of sight from operational workstreams to strategic level.

10. The governance model is a proven model for ERP implementation and tailored for Southwark Council to ensure it provides for oversight by senior leadership and Members, and control and governance for benefits realisation and achieving social value.

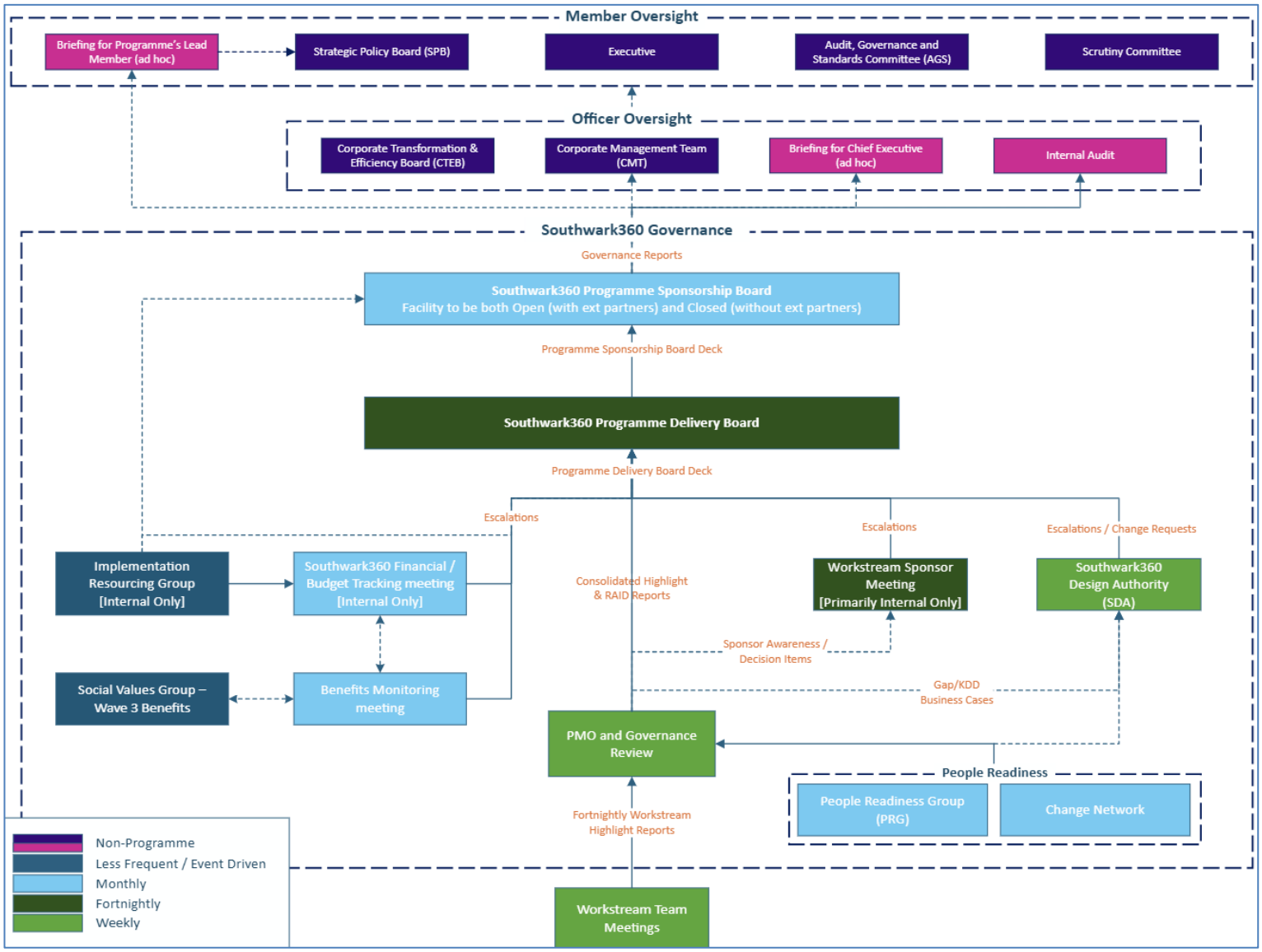


Figure 1- Southwark360 Programme Governance

KEY ISSUES FOR CONSIDERATION

Programme Plan

11. The programme is following the approved vendor delivery methodology SAP Activate which entails 5 phases set out below; the programme is now in the Realise Phase.



Figure 2-SAP Activate Delivery Phases

12. There are two Go-Lives within the plan: the first on 24 September which is a go-live of employee modules for Learning, Performance and Expenses, and a module for Contracts which will be used by Lead Contract Officers in the council who undertake procurement and management of supplier contracts.

13. The second go-live is planned for April 2027 and will cover the remaining modules across the Success Factors (HR), S/4 (Finance), Ariba (Procurement) and SAP Analytics Cloud (Budget and Planning) applications that make up the full SAP S/4 HANA ERP solution.

14. Key programme milestones are reflected on the High-Level Plan on a Page shown in Figure 2 and include:

    a. *Explore Phase Exit* – The five-month Explore phase was where the solution design and scope was finalised through workshops with key representatives from within the organisation. There was a delay of 5 weeks for formal exit, with those modules ready for development commencing in parallel to design finalisation across the solution. Extensive re-planning and resource reallocation followed to mitigate and reduce risk of delaying go-lives, and the programme remains on track at this stage due to utilisation of planned contingency.

    b. *Completion of Data Migration* – Data Migration ensures that accurate, complete and validated data is transferred from legacy systems into the new ERP platform, enabling business operations to continue seamlessly and providing confidence and a trusted foundation for day one. Our current SAP legacy system holds 26 years of data which has requires extensive pre-emptive cleansing as part of programme mobilisation activity. Data Cleansing has continued as part of the Migration and Transformation process and it remains critical that foundational work undertaken by the programme is met by improved data management practice.

    c. *Completion of Change and Training Deliverables* – Completion of change artefacts such as Change Impact Assessments and Business Process Maps has taken significant effort and longer than expected given the historic gaps in these areas. Building on As-Is business process mapping undertaken as part of the Programme's mobilisation,

change deliverables are now validated post design phase and will continue to be iterated to ensure they adapt to any changes to the solution identified across the programme's lifecycle. These artefacts are integral to successful transformation and will leave the organisation with the collateral to further improve its business processes and behaviours.

d. *Completion of PPR cycles* – Parallel Payroll Run cycles are the key activity to validate that the incoming payroll system is calculating and posting pay correctly. An enhanced set of early activity such as audits and agreeing quality criteria has taken place to support the two cycles planned ahead of go live – acknowledging that payroll implementations carry a high degree of risk and complexity.

e. *Completion of UAT* – User Acceptance Testing is the final phase of testing ahead of go live and occurs for all modules, business processes, and integrations across both Wave 1 and Wave 2 of deployment. UAT is the organisation's formal opportunity to validate that the new system supports real operational processes (both system and people processes), that new interfaces work as expected and that the system is ready for go-live. Consequently, UAT is under further planning to ensure the complexity of Wave 2 testing is addressed and is sufficiently resourced to support testers who will be from across the organisation.

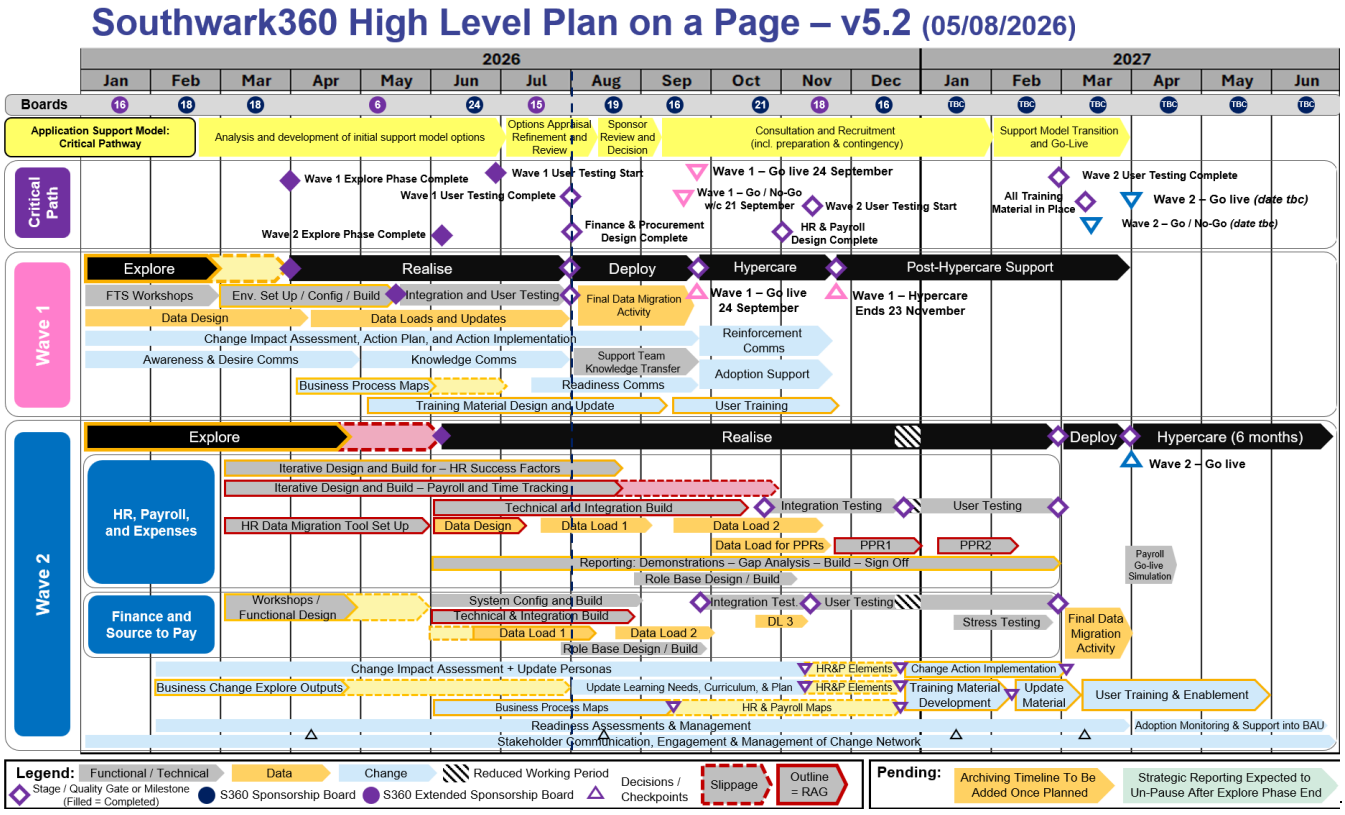


Figure 3-Southwark 360 High Level Plan on a Page (August 2026)

Primary benefits and related business processes

15. The council's investment in ERP replacement will realise multiple benefits and deliver the programme vision of a resilient, future-ready council that empowers our people, unifies our workforce, and strengthens how we work together.

16. Benefits were identified at the outset of the programme aligned with organisational and strategic objectives. Detailed benefits were mapped out based on solution and business requirements that addressed the pain points experienced by services and users and set out under a benefits framework of 8 strategic benefits as follows:

- **B1 Workforce** - Employees and managers feel empowered with enhanced tools and resources, enabling them to deliver the best services to our residents, staff and customers

- **B2 Decision-making** - Budget holders/decision makers feel confident in making informed decisions on their staffing and resources

- **B3 Suppliers** - Suppliers experience increased satisfaction and confidence, assured of timely payments for their goods and services

- **B4 Customers** - Customers experience greater satisfaction in transacting with us, through smoother interactions and faster resolutions

- **B5 One Council** - Our people experience greater cohesion and collaboration with colleagues, sharing the common employee experiences and processes that foster productive relationships and trust

- **B6 Data Security** - Data owners feel greater confidence in the security of their data

- **B7 Resilience** - Senior leaders feel assured of the council's resilience and ability to continue to undertake core business processes in a sustainable and cost-effective way

- **B8 Scalability and flexibility** - Technology and infrastructure future-proofed and flexible to build on for the future

17. The benefits framework defines financial and non-financial benefits that are underpinned with performance metrics and measures and benefit owners who will be responsible for delivery of the related benefits realisation plans into go-live and transition to business-as-usual operations and stabilisation.

18. The current focus for benefits activity in this phase of the programme is re-validation of benefits, development of benefits metrics, confirmation of benefit ownership and development of benefit realisation plans.

19. The programme will develop a benefits KPI dashboard alongside the business owners and process owners to transition to business-as-usual operations for the related services for HR, Payroll, Finance and Procurement.

20. The following table provides six key benefits related to core business processes with high certainty of realisation of financial and non-financial benefits; following completion of the re-validation exercise this phase, these benefits along with others under re-validation will be formally agreed by the Programme Sponsorship Board for taking forward with related targets and KPIs.

Benefit Area	Intended Outcome / Benefit description	Measures of Success
Establishment management	• Establishment Data informs salary forecasting and budget management Improved decision-making through accurate and timely data Solution that provides efficient and flexible way to maintain and change the organisational structure, whilst ensuring control	• Less time spent on establishment management and cleansing (HR & Finance) - more accurate data • Salary forecasting automated through system • Greater confidence in establishment data • Change processes developed and implemented that have greater manager interaction (trigger, approver) • Self-service reports and analytics developed and adopted by managers and key users
Budget Management & Monitoring	• Improved budget holder experience and management of financial transactions and decision making. • Greater ownership by budget holders. • Enhanced forecasting of income and spend through system predictive capabilities	• Decisions and action in a more informed and timelier basis. • Accuracy in forecast: reduction in forecast variance
Procure to Pay	• Robust and streamlined procure to pay process that improves supplier and customer (council users) experience, reduces the manual handling of process steps, leverages automation and system capability, introduces controls around vendor creation, introduces de minimis value for GRNs and reduces risk of fraud and duplicate payments	• Reduced duplicate payments • Reduced time spent by officers on vendor creation and supplier database management • Resources (FTE) required to undertake work • Supplier Portal implemented to reduce manual handling and existing suppliers onboarded • Reduced time spent by officers on invoice loading, matching and validating • Reduced time spent by services completing GRN • OCR implemented to read invoices

Benefit Area	Intended Outcome / Benefit description	Measures of Success
Information, Guidance and Support (Service Desk)	• Staff can easily access information and guidance within SAP using AI Joule and can request guidance and support via the Service Desk module. • Information, Advice and Guidance queries substantially shift to AI Joule or Co Pilot for resolution, with simplified provision of targeted advice and information based on individual employee circumstances	• Reduction in IAG queries resolved by HR services • Engagement metrics • Provision of ability to model entitlements, pay projections etc to employees based on their personal variables • Integrated/AI-powered service desk functionality for triaging and management of requests increases user satisfaction • Increased capacity to HR teams through utilisation of AI Joule to field L0 queries, reducing number of requests to HR teams • Greater oversight of services needs and issues enable pre-emptive and pro-active support and improved user experience
Reporting	• Platform that provides integrated reporting MI and insights to end users without needing to extract, manipulate and push out manually, and can provide complex cross-modular intelligence	• Self-service reports and analytics developed and adopted by managers and key users and consumed at source • Report that highlights changes to hierarchy and positions • Dashboards with flexible, role-based access controls to MI • Org maturity in terms of data usage • All data live and accessible in real-time (absence and headcount reporting metric) • Statutory reporting processes effectively automated with fewer manual steps
Joined-up Starter, Leaver and Mover processes (SLAM)	• Joined up with Microsoft Entra, Hornbill (or equivalent), role-based access and hierarchy controls, and with end-to-end starter, mover and leaver processes for all user types of SAP S/4 HANA	• Lean, more automated and effective SLAM processes with fewer errors / issues • Cross-functional process flows with clear accountability and traceability of hand-offs • Improved user experience of managers and starters, movers and leavers. • Exception processes in place to manage agreed and ad hoc exceptions

Change management including training

21. **People readiness and adoption:** the Change Workstream is preparing for Wave 1 go-live on 24 September, with a strong focus on people readiness and adoption. This includes targeted professional-user readiness sessions across each application, increased engagement through the People Readiness Group, Change Makers and (with Communications and Engagement) council-wide ‘In the Know’ sessions, and readiness analysis across both professional and wider end-user groups. Our adoption and engagement approach is being coordinated with the business to establish clear feedback loops including Performance and Contracts pilots, go-live and hypercare.

22. **Change and learning readiness:** the change leads continue to maintain

and align our core change artefacts across all functional areas, incorporating the latest change impacts and post-UAT configuration changes into the Change Implementation Plan. In parallel, we are progressing the digital-first learning offer, including quick reference guides, how-to videos, e-Learning and readiness materials, ensuring users understand what is changing, what support and learning is available, how to access it, and where to go for support from Day 1 and throughout the hypercare period.

23. **Communication and engagement:** intensive communication of Wave 1 changes and all related cutover activities is underway with 40 directorate briefings completed to date. There is strong evidence from pulse surveys and observation that the line manager toolkits provided by the programme are being used to cascade messages. The Southwark360 Change Makers are clear on the key messages and their role and also have a September session planned to practice this in readiness for the Wave 1 go live. In addition to the six council-wide 'In the Know' sessions, there will be 20-day/ 10-day/ 5-day countdown checklists issued from 27 August along with a countdown clock on the council Intranet.

Key programme risks and issues

24. The programme maintains risk and issue registers that are shared with all parties within the programme delivery team for assessment and mitigations, reported to sponsors and senior stakeholders through regular governance meetings, and monitored and maintained by the programme monitoring office.

25. In the current reporting period, July 2026, there are no red risks due to mitigation plans in place that have been put in place. The key risks that are being tracked as priority are as follows:

    a. *Payroll Testing and Implementation:* payroll is the most complex element of the solution – both from a build perspective, ensuring it meets statutory requirements as well as Southwark business requirements for its diverse workforce, and also from a data and testing perspective. Some specific areas of complexity are where we have numerous different work patterns for the workforce due to flexible working policy, and also where employees may have multiple employment contract types; these areas were prioritised at the outset to ensure we develop optimal solutions with our systems implementer and SAP, improve on our current methods of processing and reduce the likelihood of impact on these employees.

       In order to de-risk this area, the programme has procured a dedicated payroll tenant to more robustly and safely build, migrate and test the solution including full business process testing through parallel payroll runs. Where not all functionality is processed in payroll runs – such as adoption leave or neo-natal leave - extensive user acceptance testing (UAT) has been planned. Programme sponsors have ensured sufficient payroll resources to undertake the parallel running of payroll, UAT and

validation of data so that there is less potential for errors in the new system and lower risk of staff being paid incorrectly.

b. *Application support model:* the new solution will require a new model of support for end user issues and for technical and application updates. The solution will be on public cloud which means a new set of constraints and ways of working from an application support perspective. The programme has a dedicated project to develop the support model for in-house support provision within the Technology and Digital Services division as well as procure an external managed support parter (as set out in Lot 6 of the Gateway 1 Procurement Strategy). The key risk here is ensuring requirements are clear for future support and developing a model that aligns most cost-effectively with business need following the transition to business-as-usual operations. The programme is targeting to implement the new support model including completion of the procurement of the manager support element in time for the April go-live and commencement of six-month hypercare so that the support model can learn and embed effectively by the end of hypercare in October 2027.

c. *Scope*: whilst the programme has exited the Explore Phase of solution design, there is still high potential for further gaps to be identified through unit testing and system integration testing that could lead to unplanned scope increase. This is common for programmes of this size and complexity and has been factored into programme resourcing however the programme governance in place provides mitigation to this risk with a change control process in place that is overseen by the programme's Solution Design Authority with Technology and Digital Services representation that enforces a strictly defined change control process and effectively manages risk of increase to scope.

26. In the current reporting period, July 2026, there are two issues rated High that are being tracked closely by programme director and workstream leads:

a. *Reporting:* ensuring the core set of finance, HR, payroll and procurement reports are available for the two go-lives is essential to ensure business is not impacted and that we can meet our statutory reporting requirements. To date, the timeline for report development has been impacted due to resourcing issues of the systems implementer and the lack of clarity around cross-functional reporting capabilities. Our systems implementer has secured additional reporting resources in this reporting period. They are currently being onboarded to the programme, and planning is underway to expedite this area of work with services throughout August and September which is providing some confidence in resolution of this issue. At this stage, there is no expected impact on the April go-live for delivery of core reports for these functional areas.

b. *Interfaces with other business applications*: linking our ERP with other business applications in the council's application portfolio is

fundamental for maintaining effective resource and financial management, and also essential for ensuring core business processes are delivered without requiring extensive manual, complex and time-consuming processing that is vulnerable to data security and process failure. The programme is ensuring the existing interfaces with social care, housing, income and payment systems are in place in the new solution but also taking the opportunity to improve and fix them where needed to optimise the related business processes. Additionally, the programme has new interfaces in its approved scope such as with the agency worker system and reference checking system that will provide much needed control and oversight of council resources. This work involves significant resource and effort with our systems suppliers to develop, build and test new interfaces, and there are still elements of this work that is not yet fully explored. The programme has allocated additional resources to this work to complete the analyses and specifications and manage the alignment with the overall programme delivery plan; and is maintaining close oversight by programme sponsors to ensure effective prioritisation so that there is no impact to the April go-live for SAP S/4 HANA or extended disruption to the social care, housing, income and payments systems.

Policy framework implications

27. This report is not considered to have direct policy implications.

Community, equalities (including socio-economic) and health impacts

Community impact statement

28. This report and the accompanying accounts are not considered to have a direct impact on local people and communities.

Equalities (including socio-economic) impact statement

29. This report is not considered to contain any proposals that would have a significant equalities impact.

Health impact statement

30. This report is not considered to contain any proposals that would have a significant health impact.

Further guidance

31. None required.

Climate change implications

32. This report is not considered to contain any proposals that would have a significant impact on climate change.

Resource implications

33. The resources required to deliver the programme have been outlined in the Programme Finance and Budget section of the July report to Committee and the associated key decision report on the procurement strategy that is noted in the background papers.

34. At the time of this report, the programme remains within the approved budget envelope (Figure 4) and maintains quarterly budget and resource reviews with the programme sponsors to manage and respond to any emerging pressures.

S360 PROGRAMME BUDGET 2023/24 - 2027/28	Total	Mobilisation Year 1 23/24	Mobilisation Year 2 24/25	Mobilisation Year 3 25/26	Implementation Year 1 25/26	Implementation Year 2 26/27	Implementation Year 3 27/28
Mobilisation resources (staffing and non-staffing)	£4,893,717	£438,985	£2,674,594	£1,780,138	-	-	-
Implementation resources (staffing and	£6,976,952				£1,795,265	£5,181,687	£0
Implementation contracts (Lots 1-7)	£10,148,012				£2,818,359	£5,331,744	£1,997,909
Totals	£22,018,681				£5,164,880	£10,513,431	£1,997,909
Reserves	£22,048,817						
Funding surplus	£30,136						

Figure 4 - S360 Programme Budget FY 23/28

Consultation

35. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

36. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Gateway 1, Procurement Strategy	Decision - Gateway 1 - Procurement Strategy Approval: Replacement of the Enterprise Resource Planning System - Southwark Council	Jason Martin
Gateway 2, Lot 1 Contract Award	https://moderngov.southwark.gov.uk/ieDecisionDetails.aspx?ID=8228	Jason Martin
Gateway 2, Lot 2 and Lot 3 Contract Award	https://moderngov.southwark.gov.uk/ieDecisionDetails.aspx?ID=8401	Jason Martin
Gateway 2, Lot 4 and Lot 5	https://moderngov.southwark.gov.uk/ieDecisionDetails.aspx?ID=8402	Jason Martin

APPENDICES

No.	Title
None	

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources
Report Author	Jason Martin, Programme Director
Version	Final
Dated	25 August 2026
Key Decision?	No

CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	**Comments sought**	**Comments included**
Director of Law and Governance	No	N/A
Strategic Director of Resources	No	N/A
Executive Member	No	No
Date final report sent to Constitutional Team		25 August 2026

Agenda Item 14

Meeting Name:	Audit, Governance and Standards Committee
Date:	September
Report title:	Review of the Audit, Governance and Standards Committee Terms of Reference
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	n/a

RECOMMENDATION

1. That the Audit, Governance and Standards Committee notes the changes made by section 94 of the English Devolution and Community Empowerment Act 2026, which inserts a new section 33AA into the Local Audit and Accountability Act 2014.

2. That the committee agrees to recommend to Council Assembly that the committee's terms of reference, as set out in Part 3K of the council's constitution, are updated to reflect the statutory audit committee functions now set out in legislation.

3. That the committee notes the proposed revised terms of reference set out at Appendix 1 to this report and agrees that officers should finalise the constitutional wording for submission through the appropriate governance route to Council Assembly.

4. That the committee asks officers to bring a further report to a future meeting on the potential appointment of an independent member to the committee, including the proposed role, selection criteria, recruitment process, remuneration and any constitutional changes required.

BACKGROUND INFORMATION

5. The council's Audit, Governance and Standards Committee provides independent assurance on the adequacy of the council's governance, risk management, internal control, financial reporting, internal audit and external audit arrangements.

6. The committee's terms of reference are set out in Part 3K of the council's constitution. Any change to those terms of reference is a constitutional change and therefore requires approval by Council Assembly. It is appropriate for the Audit, Governance and Standards Committee to consider the proposed changes first and recommend them to Council Assembly.

7. Section 94 of the English Devolution and Community Empowerment Act 2026 amends the Local Audit and Accountability Act 2014 by inserting a new

section 33AA on audit committees. The new provision requires relevant authorities, other than health service bodies, to have an audit committee and to arrange for that committee to exercise specified statutory functions.

8. The statutory functions include reviewing and scrutinising the authority's financial affairs; reviewing and assessing risk management, internal control and governance arrangements; reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions; and making reports and recommendations to the authority in relation to those reviews.

9. The Act also enables the Secretary of State to make further regulations about audit committee membership, appointments and payments to members. The legislation has been structured so that the requirement for an audit committee to include at least one independent member is not yet in force. That requirement will be brought into effect through further regulations made under section 94, which the Government intends to lay in due course when parliamentary time allows. Those regulations will be followed by statutory guidance setting out more detailed expectations for the operation of audit committees.

KEY ISSUES FOR CONSIDERATION

10. Officers have reviewed the current terms of reference against the new statutory wording. While the committee's existing remit already covers a broad range of audit, governance, risk and financial reporting responsibilities, the terms of reference should be updated so that they expressly reflect the statutory functions now set out in legislation.

11. In particular, it is recommended that the terms of reference should expressly include the committee's role in making reports and recommendations to the authority arising from its reviews of financial affairs, risk management, internal control, governance arrangements and value for money.

12. The appointment of independent members to local authority audit committees has been recommended previously by the Redmond Review and reflected in CIPFA guidance on effective audit committees. The government's local audit reform programme has also signalled an intention to strengthen audit committee arrangements, including independent membership.

13. The new legislation intends to provide a regulation-making power on audit committee membership and requires that future regulations secure at least one independent person on each audit committee. The detailed requirements, including the definition of independence, appointment process and any remuneration arrangements, will be set out in regulations.

14. The committee is asked to consider whether the council should undertake preparatory work now, rather than waiting for further regulations. This would allow the council to assess the benefits, risks and practical implications of appointing an independent member and to be ready to respond promptly once the national framework is confirmed.

Proposed update to Part 3K of the Constitution

15. The proposed revised terms of reference are set out at Appendix 1. The proposed wording is intended to preserve the committee's existing assurance, audit, governance and standards functions while making explicit the statutory audit committee functions now required by legislation.

16. Subject to the committee's agreement, officers will finalise the wording in consultation with Governance and Assurance and Legal Services, before submitting the proposed constitutional amendment through the appropriate route to Council Assembly.

POLICY FRAMEWORK IMPLICATIONS

17. The recommendations in this report support the council's governance framework by ensuring that the committee's constitutional terms of reference remain aligned with statutory requirements and recognised good practice for audit committees.

18. The proposed changes do not alter the council's policy framework. They clarify and strengthen the committee's role in providing assurance over financial affairs, governance, risk management, internal control and value for money.

Community, equalities (including socio-economic) and health impacts

Community impact statement

19. There are no direct community, equality, socio-economic or health impacts arising from this report.

20. Strong audit committee arrangements support good governance, transparency and accountability, which contribute to effective stewardship of public resources and decision-making in the interests of residents.

Equalities (including socio-economic) impact statement

21. There are no direct equalities implications in the proposals in this report.

Health impact statement

22. There are no direct health implications in the proposals in this report.

Climate change implications

23. There are no direct climate change implications in the proposals in this report.

Resource implications

24. There are no direct financial implications arising from the recommendation to update the terms of reference.

25. Any future proposal to appoint an independent member would need to consider recruitment costs, allowances or remuneration, training and ongoing support arrangements. These issues will be addressed in a further report if the committee agrees that preparatory work should be undertaken.

Consultation

26. Officers will consult Governance and Assurance and Legal Services on the proposed constitutional wording before submission to Council Assembly.

27. Further consultation may be required if proposals are brought forward for the appointment of an independent member, including consultation on the role description, selection criteria and appointment process.

LEGAL IMPLICATIONS

28. Section 94 of the English Devolution and Community Empowerment Act 2026 amends the Local Audit and Accountability Act 2014 by inserting a new section 33AA on audit committees.

29. The new statutory provisions require relevant authorities to have an audit committee and to arrange for that committee to exercise the functions specified in the legislation.

30. Changes to the committee's terms of reference would require approval by Council Assembly as a change to the council's constitution.

31. The Act also enables the Secretary of State to make regulations relating to audit committee membership, appointment and remuneration, including provision requiring at least one independent person to be a member of the committee. The council will need to consider any regulations and statutory guidance once published

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Local Audit and Accountability Act 2014	Local Audit and Accountability Act 2014	Ministry of Housing, Communities and Local Government
English Devolution and Community Empowerment Act 2026	English Devolution and Community Empowerment Act 2026	Ministry of Housing, Communities and Local Government

APPENDICES

No.	Title
Appendix A	Proposed revised terms of reference for the Audit, Governance and Standards Committee
Appendix B	MHCLG letter 31 July 2026

AUDIT TRAIL

Lead Officer	Tim Jones, Director of Corporate Finance	
Report Author	Geraldine Chadwick, Assistant Director of Finance (Corporate)	
Version	Final	
Dated	25 August 2026	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	No	No
Strategic Director, Resources	No	No
Cabinet Member	No	No
Date final report sent to Constitutional Team		26 August 2026

Appendix A: Proposed amendments to Part 3K: Audit, Governance and Standards Committee

The proposed amendments below retain the current structure of Part 3K of the constitution and update the committee's role and functions to reflect the statutory audit committee functions introduced by section 94 of the English Devolution and Community Empowerment Act 2026, which inserts section 33AA into the Local Audit and Accountability Act 2014.

1. In the Introduction section, replace the opening wording and paragraphs 1 to 5 with: The purpose of the audit, governance and standards committee is to provide independent assurance to the council on the adequacy and effectiveness of its governance arrangements, including its standards regime, risk management framework, internal control environment, financial reporting, internal audit and external audit arrangements.

The committee is responsible for exercising the statutory audit committee functions required by section 33AA of the Local Audit and Accountability Act 2014, including reviewing and scrutinising the council's financial affairs; reviewing and assessing the council's risk management, internal control and governance arrangements; reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the council's functions; and making reports and recommendations to the authority in relation to those matters.

The committee will also continue to provide: independent assurance of the adequacy of the council's governance arrangements, including its standards regime, the risk management framework and associated control environment; independent scrutiny of financial and non-financial performance where it affects exposure to risk or weakens the control environment; oversight of the financial reporting process; scrutiny of the treasury management strategy and policies; and a framework to promote and maintain high standards of conduct by councillors, co-opted members and church and parent governor representatives.

In the Audit activity section, retain paragraphs 6 to 17 and add the following additional functions after paragraph 17:

17A. To review and scrutinise the council's financial affairs for the purposes of the statutory audit committee functions.

17B. To review and assess the council's risk management arrangements, internal control arrangements and governance arrangements.

17C. To review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the council's functions, including having regard to external audit value for money work and any related recommendations.

2. In the Accounts section, retain paragraphs 18 and 19.

3. In the Treasury management section, retain paragraph 20.

4. In the Governance activity section, retain paragraphs 21 to 30 and add the following additional function after paragraph 30: To make reports and recommendations to Council Assembly, the Executive, the Chief Executive, the Strategic Director of Resources or other appropriate officers on matters arising from the committee's review of financial affairs, risk management, internal control, governance arrangements and value for money.

Rosie Seymour
Deputy Director

Ministry of Housing, Communities & Local Government
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Ministry of Housing, Communities & Local Government

For the Attention of: All Section 151 Officers / Directors of Finance

31 July 2026

Dear Colleagues,

I am writing to make you aware that Section 94 (Audit Committees) of the English Devolution and Community Empowerment Act 2026 has now been commenced in relation to Category 1 authorities (excluding health service bodies), with effect from 15 July 2026. You can find the commencement regulations here.

As a result, relevant authorities under the Local Audit and Accountability Act 2014 are now required to have an audit committee in place. The audit committee must exercise the functions set out in the Act, namely:

- reviewing and scrutinising the authority's financial affairs;
- reviewing and assessing the authority's risk management, internal control and governance arrangements;
- reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions; and
- making reports and recommendations to the authority in relation to those matters.

We expect that the vast majority of authorities already have these governance arrangements in place, and therefore do not anticipate that significant changes will be necessary. However, if you foresee any difficulties in complying with these requirements, please let my team know.

You should note that the legislation has been structured so that the requirement for an audit committee to include an independent member is not yet in force. Section 94 provides for further regulations to be made covering audit committee membership, appointments and the payment of allowances, and it is through those regulations that

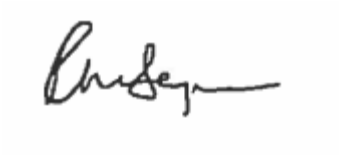
the requirement for an audit committee to have at least one independent member will be brought into effect.

The Government intends to lay these regulations in due course, when parliamentary time allows. The regulations will be followed by statutory guidance setting out more detailed expectations for the operation of audit committees.

In the meantime, we would encourage those authorities that do not already have an independent member on their audit committee to begin recruitment and appointment arrangements. Early planning will help ensure that authorities are well placed to comply once the relevant regulations come into force.

If you have any questions, please contact the Local Audit Reform team, localaudit@communities.gov.uk.

Yours faithfully,



Rosie Seymour

Deputy Director, Local Audit Reform Team
Ministry of Housing, Communities and Local Government

Agenda Item 15

Meeting Name:	Audit, Governance and Standards Committee
Date:	8 September 2026
Report title:	In year review of work programme 2026-27: September 2026
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	N/A
From:	Head of Constitutional Services

RECOMMENDATIONS

1. That the audit, governance and standards committee note the proposed work programme for 2026-27.

BACKGROUND INFORMATION

2. At their meeting in February 2026, the committee considered and agreed a work programme for 2026-27 and requested that this be brought back to future meetings for updates if required.

KEY ISSUES FOR CONSIDERATION

3. In considering items for inclusion, it may be helpful to do this within the framework of the committee's purpose, as set out in the constitution. This was amended in 2016-17 when the committee was renamed and is stated to be:

    - Independent assurance of the adequacy of the council's governance arrangements, including the risk management framework and the associated control environment
    - Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment
    - Oversight of the financial reporting process
    - Scrutiny of the treasury management strategy and policies
    - A framework to promote and maintain high standards of conduct by councillors, co-opted members and church and parent governor representatives.

4. The committee's terms of reference, as approved by council assembly, cover functions relating to audit activity, the regulatory framework, accounts, treasury management and the council's standards framework. They are attached at Appendix 2 as they may further help the committee to determine items to be included in its work programme.

5. The work programme for 2026-27 has been included at Appendix 1 for the committee's consideration. Some items are standing items which will only be brought forward if and when they arise.

6. There remains a need to ensure flexibility in terms of emerging issues which come to light through items already on the committee's agenda. For example, a review of audit recommendations and progress on their implementation may highlight a need to request the attendance of individuals at a future meeting to help explain action taken. The programme therefore includes a standing item relating to review of the committee's work plan. There may also be a need to review the work programme to take account of any changes which may be agreed to the council's constitution during the year.

7. Items have been grouped in line with its functions, in order to ensure that there is appropriate coverage of the committee's key roles as defined in its terms of reference.

8. Training will continue to be provided for members on the role of the committee, and development needs will continue to be monitored to enable appropriate training to be provided as opportunities arise.

9. The committee is asked to consider whether the attached work programme reflects its priorities for the next year or whether there are other amendments which it would wish to see included.

Policy implications

10. This report is not considered to have direct policy implications.

Community, equalities (including socio-economic) and health impacts

Community impact statement

11. The decision to agree a work programme is considered not to have a significant impact on any particular community or group.

Equalities (including socio-economic) impact statement

12. There are none.

Health impact statement

13. There are none.

Climate change implications

14. There are none.

Resource implications

15. There are none.

Consultation

16. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None.		

APPENDICES

No.	Title
Appendix 1	Work programme 2026-27
Appendix 2	Extract from the constitution – Part 3K: Audit and governance committee

AUDIT TRAIL

Lead Officer	Chidi Agada, Head of Constitutional Services	
Report Author	Virginia Wynn-Jones, Principal Constitutional Officer	
Version	Final	
Dated	27 August 2026	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	**Comments sought**	**Comments included**
Director of Law and Governance	No	No
Strategic Director of Resources	N/A	N/A
Executive Member	No	No
Date final report sent to Constitutional Team		27 August 2026

APPENDIX 1

Work plan items

TUESDAY 24 NOVEMBER 2026
Report Title
Statement of accounts 2025-26: Final
Final Annual governance statement (included with final accounts)
Treasury management strategy
Audit findings reports (ISA 260) – including pension fund) (part of statement of accounts)
Auditor's Annual Report 2025-26, including annual audit letter and audit fee letters, and external audit update report
Member induction and training: outcomes of programme and updates planned
Progress report on the work of internal audit, including schools 2025-26 outturn, and anti-fraud
Revised corporate risk register
Southwark 360/Enterprise Resource System Progress Update
Outcomes of the whistleblowing policy
Request for recommendations for non-voting co-opted members of the civic awards sub-committee
Review of member officer protocol (if required)
Review of communications protocol (if required)
Corporate governance framework (if required)
Work plan for 2026-27
MONDAY 1 FEBRUARY 2027
Report Title
Risk management and insurance
Pension fund audit plan for 2025-26
External audit plan for 2027-28
Internal audit plan and strategy for internal audit and Internal audit charter
Progress report on the work of internal audit, including update on shared service, and anti-fraud

External audit update report
Outcomes of the whistleblowing policy
Review of complaints made under Code of Conduct and update to code of conduct
Report on operational use of Regulation of Investigatory Powers Act
Annual report of audit, governance and standards committee
Annual work programme for following year (2027-28)
Nominations of non-voting co-opted members of the civic awards sub-committee for 2026-27
Audit update report (if required)
Progress report on implementation of external audit recommendations (if required)
Corporate governance framework (if required)
Budget challenge and governance (if required)

APPENDIX 2

Extract from the constitution – Part 3K Audit and governance committee

ROLE AND FUNCTIONS

Introduction

The purpose of the audit, governance and standards committee is to provide:

1. Independent assurance of the adequacy of the council's governance arrangements, including its standards regime, the risk management framework and the associated control environment.

2. Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment.

3. Oversight of the financial reporting process.

4. Scrutiny of the treasury management strategy and policies.

5. A framework to promote and maintain high standards of conduct by councillors, co-opted members and church and parent governor representatives.

Audit activity

6. To approve the internal audit charter

7. To approve the risk based internal audit plan, including resource requirements.

8. To approve any significant proposed advisory services, additional to those included in the audit plan.

9. To receive information on the appointment, departure, resignation or change in chief audit executive.

10. To receive in-year summaries of internal audit and anti-fraud activity and the internal audit annual report and opinion and to consider the level of assurance it can give over the council's corporate governance arrangements.

11. To receive reports dealing with the management and performance of the provider of internal audit services, including the performance of the chief audit executive.

12. To receive reports from internal audit on agreed recommendations not implemented within a reasonable timescale.

13. To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.

14. To consider specific reports as agreed with the external auditor.

15. To comment on the scope and depth of external audit work and to ensure it gives value for money.

16. To have oversight over the appointment of the external auditor.

17. To commission work from internal and external audit.

Accounts

18. To review and approve the annual statement of accounts and specifically to consider compliance with appropriate accounting policies and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

19. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Treasury management

20. To review and scrutinise the treasury management strategy and policies.

Governance activity

21. To review any issue referred to it by the chief executive or a strategic director, or any council body.

22. To monitor the effective development and operation of risk management in the council.

23. To monitor the effective development and operation of corporate governance in the council and to agree actions necessary to ensure compliance with best practice.

24. To monitor council policies on 'whistle-blowing', the 'corporate anti-fraud strategy' and the council's complaints processes.

25. To receive reports from the statutory officers under the council's whistle blowing policy.

26. To provide strategic oversight on the use of the powers regulated by the Regulation of Investigatory Powers Act 2000 and to receive in-year reports on operational use.

27. To oversee the production of and agree the council's annual governance statement.

28. To review the council's compliance with its own and other published standards and controls.

29. To receive reports on retrospective contract related decisions as set out in contract standing orders.

30. To receive reports from the monitoring officer on any serious breach of the contract standing orders or procurement guidelines.

Standards activity

31. To advise the council on the adoption or revision of the members' code of conduct, the member and officer protocol and the communication protocol.

32. To monitor the operation of the members' code of conduct, the member and officer protocol and the communication protocol.

33. To monitor and advise on training provided for councillors, co-opted members and church and parent governor representatives.

34. To deal with any standards related complaints referred to it and any report from the monitoring officer on any matter which is referred to him or her.

35. To receive reports from the monitoring officer on unlawful expenditure and probity issues.

36. To consider the withholding of allowances from individual members (including elected members and co-opted members) in whole or in part for non-attendance at meetings, or, for elected members only, for failure to attend required training.

37. To establish the following sub-committees:

    - to consider complaints of misconduct against elected councillors and co-opted members
    - to consider civic awards.

Annual report

38. To report annually to all councillors on its work and performance during the year.

MATTERS RESERVED FOR DECISION

Matters reserved for decision by the main committee

39. The matters reserved for decision to the committee are as set out in the role and functions, other than those functions delegated to the relevant sub-committee.

Matters reserved for decision by the conduct sub-committee

40. To consider complaints of misconduct against elected councillors and co-opted members.

Matters reserved for decision by the civic awards sub-committee

41. To grant civic awards.

42. To consider the process by which the decisions with respect to civic awards applications are to be taken and to make recommendations to the standards committee.

43. To appoint non-voting co-opted members.

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MUNICIPAL YEAR 2026-27

COMMITTEE: **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE (OPEN AGENDA)**
NOTE: Original held in Constitutional Team; all amendments/queries to Virginia Wynn-Jones, Constitutional Team on 020 7525 7055 or virginia.wynn-jones@southwark.gov.uk

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Councillor James Moyse	By email
Councillor Graham Neale (Vice chair)	1
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List Updated: August 2026