

Appendix 1

Annual Governance Statement 2022-23

Introduction and acknowledgement of responsibility

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 has to 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 publication (2016) defines the various principles of good governance in the public sector. The document sets out seven core principles that underpin the governance framework and these are set out in Table 1 below

Table 1 – Core principles of the CIPFA/SoLACE framework



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 in order 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 is updated each year and evidence actively collated and assessed for compliance. The Code is to be updated following changes to the senior management structure. Compliance with the revised code will be reported to the audit governance and standards committee in September 2023.

3.2 The CIPFA Advisory Note 'Understanding the Challenge to Local Authority Governance' (March 2022) restates the importance of increasing awareness and strengthening of governance arrangements following the significant and high profile failures in some local authorities. These concerns were reaffirmed by the Department for Levelling Up, Housing and Communities (DLUHC) in their 2020 report, 'Addressing cultural and governance failings in local authorities: lessons from recent interventions'.

3.3 For good governance to function well, the CIPFA Advisory Note, highlighted the need for organisations to encourage and facilitate a high level of robust internal challenge through strengthening audit committees and internal challenge.

3.4 The diagram below highlights the value an audit committee can add across an organisation.



Source: *Audit Committees: Practical Guidance for Local Authorities and Police* (CIPFA, 2018)

3.5 'The CIPFA Financial Management Code 2019 (FM Code) was introduced during 2020-21, to improve the financial resilience of organisations by embedding enhanced standards of financial

management. Although the implementation of the FM Code was mandatory only from 2021-22, the council assessed compliance with the Code a year before this, in 2020-21, to ensure full compliance in 2021-22. The council has established a yearly review of compliance against the FM Code which is reported to the audit, governance and standards committee.

3.6 The governance framework incorporated into this Annual Governance Statement has been in place at Southwark Council for the year ended 31 March 2023 and up to the date of the approval for the statement of accounts. Table 2 outlines the governance framework.

Table 2 – Overview of the council’s governance framework

<p style="text-align: center;">Council, Cabinet and Leader</p> <ul style="list-style-type: none"> ➤ Provide leadership, approve the budget, develop and set policy ➤ Approve the constitution which sets out how the council operates ➤ Agree council delivery plan priorities, developed in consultation with residents and stakeholders 	<p style="text-align: center;">Scrutiny and review</p> <ul style="list-style-type: none"> ➤ Scrutiny commissions review council policy and can challenge decisions ➤ Audit, governance and standards committee reviews governance and promotes and maintains high standards of conduct by councillors
<p style="text-align: center;">Decision making</p> <ul style="list-style-type: none"> ➤ All decisions made in compliance with law and council constitution ➤ Meetings are held in public ➤ Decisions are recorded on the council website 	<p style="text-align: center;">Risk Management</p> <ul style="list-style-type: none"> ➤ Risk management strategy ensures proper management of risks ➤ Risk registers identify both strategic and operational risks
<p style="text-align: center;">Corporate Management Team</p> <ul style="list-style-type: none"> ➤ Head of Paid Service is the Chief Executive and is responsible for all council staff and leading an effective corporate management team (CMT) ➤ During the latter part of 2022-23 there has been a transition to a new corporate structure, with changed responsibilities. These are described in more detail in the main report at paragraph 6.3.7 and 6.3.8 	

Constitution and Committees

3.7. The [Council Assembly](#) is responsible for approving the budget, developing policies, making constitutional decisions and deciding local legislation. The council assembly elects the leader for a term of four years, and the leader appoints a cabinet (including him/herself), each holding a special portfolio of responsibility. The council leader, Councillor Kieron Williams was appointed in September 2020.

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 the cabinet and 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 Assistant Chief Executive, Governance and Assurance, ensures that all decisions made are legal and supports the audit, governance and standards committee in promoting high standards of conduct amongst members.

3.9 The overview and scrutiny committee and its scrutiny commissions scrutinise decisions made by the cabinet, and those delegated to officers, and review services provided by the council and its partners. The scrutiny officer promotes and supports the council's scrutiny functions.

3.10 A council delivery plan 2022-26 was presented to and agreed by Cabinet in September 2022. This is published on the council's website. In addition, the council is working with residents and partners to develop a borough wide strategy for the long term to 2030... The Council Delivery Plan is reviewed and updated according to changing statutory requirements, the evolving social and economic situation, analyses of needs and the performance of the council against its priorities

3.11 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, attendance at local meetings (e.g. community council meetings) or contact with a local ward councillor. Trades unions are consulted on issues that affect council staff.

The Council Delivery Plan

3.12 The overall budget and policy framework of the council is set by the council assembly and all decisions are made within this framework. The council's overall policy is represented through the [Council Delivery Plan](#) which sets out the priorities and commitments to the people of Southwark. It is developed alongside the budget through consultation with residents and other stakeholders in the borough, and which sets out how the delivery plan will be achieved. The plan is centred on seven separate themes:

- Transforming our borough
- A thriving and inclusive economy
- A healthy environment
- Quality, affordable homes
- Keeping you safe
- Investing in communities

- Supporting families.

3.13 These themes describe how the council responds to local priorities – tackling the rising cost of living, building more council homes, reducing carbon emissions, creating new jobs and opportunities and protecting the borough’s mental and physical health. The plan also makes clear how the council will deliver on priorities – supporting our young people to succeed at school, ensuring our older people are cared for, keeping our streets clean and ensuring our homes and neighbourhoods are safe and well looked after.

3.14 Performance against the council delivery plan is monitored throughout the year. Progress is reviewed quarterly by the leader and respective cabinet members and is reported through an annual performance report at the end of each financial year. The council also monitors its performance through feedback from its residents and service users.

3.15 A new [Council Delivery Plan](#) was agreed in September 2022 which alongside the [Fairer Future medium term financial strategy 2022-23 to 2026-27](#) enables the council to make best use of financial resources available and to enable the continued provision of value for money services that meet the needs of residents, businesses and other stakeholders.

3.16 From the Council Delivery Plan, service plans and business plans are developed and individual officer work plans are agreed, with performance targets agreed at every level. Detailed budgets are aligned to corresponding plans following a robust budget challenge process, which challenges managers to demonstrate efficiency and value for money, and performance is monitored and managed at every level on a regular basis.

Performance, Policies, Risk and Financial Arrangements

3.17 The performance management process helps to identify learning and development needs, which are translated into personal development plans for staff. Members are also offered development opportunities, in line with their own personal development plans. The council provides a complete programme of learning and development to officers and members. Senior officers are also expected to keep abreast of developments in their profession.

3.18 The council also has a [whistleblowing policy](#), which encourages staff and other concerned parties to report any instances of suspected unlawful conduct, financial malpractice, or actions that are dangerous to the public or environment.

3.19 The council expects the highest standards of conduct and personal behaviour from members and staff; and promotes and maintains high standards of conduct by both elected and co-opted members of the authority. These standards are defined and communicated through [codes of conduct](#), protocols and other documents.

3.20 The council’s financial management arrangements conform to the governance requirements of the CIPFA “Statement on the Role of the Chief Financial Officer in Local Government” (2016). The chief financial officer is the Strategic Director of Finance who has statutory responsibility for the

proper management of the council's finances and is a key member of the corporate management team. He formally devolves the management of the council's finances within departments to strategic directors through the Scheme of Delegation for Financial Authority and Accountability. Strategic directors further devolve decision making through departmental schemes of management. The Strategic Director of Finance also provides detailed finance protocols, financial regulations, procedures, guidance and finance training for managers and staff.

3.21 The council's assurance arrangements conform to the governance requirements of the CIPFA "Statement on the Role of the Head of Internal Audit in Public Service Organisations" (2019). The chief audit executive reports functionally to the audit, governance and standards committee, which approves the audit plan and strategy and receives reports throughout the year on audit and anti-fraud activity, as well as the annual report and opinion on the internal control framework.

3.22 The council's risk management strategy ensures proper management of the risks to the achievement of the council's priorities and helps decision making. In the council's day-to-day operations, a framework of internal controls (e.g. authorisation, reconciliations, separation of duties, etc.) manages the risks of fraud or error, and this framework is reviewed by internal audit. The council has appropriate arrangements in place to deal with fraud and corruption risks and is committed to maintaining its vigilance to tackle fraud. Partnership working is governed by agreements, protocols or memoranda of understanding relevant to the type of work or relationship involved. The council's legal services and procurement teams ensure that all are fit for purpose and the council's interests are protected.

Review of effectiveness

4.1 Southwark Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

4.2 The review of effectiveness is informed by the work of the senior managers within the council who have responsibility for the development and maintenance of the governance environment, the chief audit executive's annual report, and by comments made by the external auditors and other review agencies and inspectorates.

4.3 The key elements of the review of effectiveness are:

4.3.1 The council's internal management processes, such as performance monitoring and reporting; the staff performance appraisal framework; internal surveys of awareness of corporate policies; monitoring of policies, such as the corporate complaints and health and safety policies; and the corporate budget challenge process.

4.3.2 An annual self-assessment and management assurance statement signed by strategic directors, confirming that the Code of Conduct, Financial Standing Orders and Financial

Regulations and other corporate governance processes have operated as intended within their directorates throughout the year.

- 4.3.3 The audit executive opinion to members on the adequacy and effectiveness of the internal control framework, the council's risk management and governance process. The opinion based on the interim draft annual audit report 2022-23 overall provides moderate assurance. This denotes that there is a sound system of internal control, designed to meet the Council's objectives and that controls are being applied consistently, the same opinion as in 2020-21 and 2021-22.
- 4.3.4 Internal audits have strengthened local and corporate wide arrangements. The council's improvement plan has been further embedded to enhance the risk management arrangements.
- 4.3.5 The work of the corporate governance panel (CGP) ensures that the council continues to have appropriate and fit for purpose governance arrangements that are recognised and applied across the council.
- 4.3.6 The audit, governance and standards (AGS) committee is independent and separate from the scrutiny function delivery through the Oversight and Scrutiny Committee and from the decision making committees. The audit committee provides an oversight on a range of core governance and accountability arrangements.
- 4.3.7 The annual report on the corporate risk register and risk management arrangements which were presented to the 6 February 2023, audit, governance and standards committee for discussion. The council's corporate risk register is prepared following joint assessment by officers of all departmental risks. Each department reviews their risk registers on a quarterly basis. Each risk is accompanied by a mitigation setting out the controls in place to manage risk.

The main purposes of the council's corporate risk management process are:

- 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

4.3.8 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 high level risks highlighted in February 2023 were:

- Acute socio- economic factors;
- Cost of living;
- Medium term financial planning;
- Schools and Education;
- Cyber security, IT, Data Information management;
- Capital Programme and Major Projects;
- Legal and regulatory- Government policy;
- Unforeseen Major event;
- Asset management and Building Safety;
- Failure of key provider;
- Climate emergency;
- Fraud;
- Health and Safety;
- Health and Social Care Act;
- Recruitment, retention, resources and capacity.

4.3.9 The AGS committee formal review of their performance. The committee assesses itself using a checklist produced by CIPFA. The February 2023 meeting concluded that the work programme in place had enabled the committee to carry out its functions effectively. In particular, that the committee had received regular internal and external audit reports. The committee approved the establishment of two standards sub-committee (civic awards and conduct) in July 2023.

4.3.10 The committee continued its approach to the consideration of governance by having additional structured reports on high risk areas and committee members continued to ask challenging questions and raise issues on matters before it. In some cases, this has resulted in further information being provided to the committee to provide the assurance sought; in others, it had resulted in an increased focus on the implementation of action plans. In particular, through the 2022-23 work programme. Members were able to be assured that:-

- (i) the council’s system of risk management was adequate to identify risk and to allow the council to understand the appropriate management of those risks;
- (ii) there were no areas of significant duplication or omission in the systems of governance in the council that have come to the committee’s attention and not been adequately resolved.

4.3.11 Departmental governance conversations. In 2022-23, the AGS committee continued to invite Strategic Directors and the Chief Executive to discuss their departments’ governance arrangements. These ‘governance discussions’ provided in depth details of departmental

governance arrangements, departmental risk registers, associated controls and mitigations and allowed Members to discuss and challenge particular governance issues.

- 4.3.12 Review of governance issues in other councils. In November 2022, the audit, governance and standards committee received an updated report on local authority 'Public Interest Reports' (PIRs). These cases were first brought to the attention of the committee in June 2021, summarising the findings from the Public Interest reports at Nottingham City Council, the London Borough of Croydon, and Northampton Borough Council. The updated 2022 report brought the committee up to date with the follow on report from Grant Thornton which highlighted a further ten councils who had public interest reports, statutory recommendations and other interventions such as Section 114 notices. This report concluded that some of the messages were similar to that set out previously, i.e. poor culture and governance and lack of oversight and recommended that audit committees should strive for continual improvement and regular review of potential risks.
- 4.3.13 The report also highlighted that many council finance departments have suffered from under-investment, as back office services were impacted during austerity, with councils attempting to protect front line services. This has impacted on skills and capacity in many cases. There are now significant weaknesses in some councils' succession planning, in understanding the financial accounting implications of new and innovative schemes, and in the production of financial statements, the requirements for which have grown significantly more complex in recent years
- 4.3.14 The review of compliance with the CIPFA FM Code 2022-23. The purpose of the code is to provide a strong foundation to manage financial resilience, to meet unforeseen demands on services and to manage unexpected shocks in financial circumstances. A key part of the FM Code is a review of the council's financial sustainability against the CIPFA financial resilience index which are benchmarked across other local authorities.

Assurance statement

5.1 The review, as detailed above, provides strong evidence of good overall assurance of the council's system of internal control and that the arrangements are fit for purpose in accordance with the governance framework.

Governance issues

Governance issues highlighted in 2021-2

6.1 The specific opportunities for improvement in governance and internal controls identified as part of the assurance processes have been addressed, or are included, in action plans for the relevant managers.

6.2 The follow up of the governance issues highlighted in 2021-22, are discussed in paragraphs 6.2.1-6.2.12. These were:-

- Cyber security
- The Covid-19 pandemic
- The council's ambitious housing programme
- Funding of local government
- The commitment to ensure Southwark is carbon neutral by 2030

Cyber security

6.2.1 The nature of the council's business activities means that there are ongoing information governance risks, including cyber security and IT network security, which continues to require careful management, particularly in the context of the IT shared service arrangements. Cyber security was an issue that was monitored in 2021-2 but remains a significant governance issue for the council. The widely publicised Capita IT cyber attack in March 2023 highlighted the risk of major IT outages and data breaches for local councils (and others). The council has a structured approach to review changing threat levels and processes to mitigate these threats including:

- A regular oversight by the shared service provider and council client to ensure that all controllable risk is managed and council services protected
- Robust system back-up, firewall, anti-virus and cyber security arrangements are in place through the 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
- Further development of the structure and management of IT shared services arrangements with Brent and Lewisham
- Effective policies, guidance, training and controls to ensure staff compliance, provided and updated regularly by the IT shared service
- Robust information governance arrangements including well defined Data Protection Officer and Senior Information Risk Owner responsibilities

6.2.2. The audit, governance and standards committee were updated throughout 2022-23 on the progress of the IT disaster recovery plan in response to a cyber security event or a disaster. All recommendations identified were to be resolved by March 2023.

Covid -19 Pandemic

6.2.3 The impact of the Covid-19 pandemic remained a significant risk factor in 2021-22 but key governance processes and functions were found to have been robust. The residual impact of the pandemic, however, remains in some service areas. For example, the imposition of lockdowns had a

fundamental impact on the operation and financial performance of the council's leisure services. This risk is ongoing and described in more detail in paragraphs 6.3.15 and 6.3.16.

6.2.4 The agility of council services was tested over the pandemic and this has, in some ways, allowed the council to respond quickly and effectively to the emerging cost of living crisis. Council services and financial resources that were tailored to support the vulnerable during the pandemic have been targeted to support the vulnerable again through the cost of living crisis (paragraphs 6.3.3 – 6.3.6).

The council's housing programme

6.2.5. The management of the council's housing delivery programmes continues to be an area of financial risk. The council is the largest council landlord in London and one of the biggest in the country. Safety is always the top priority. The council have drafted a new 'Asset Management Strategy', which responds to new building safety legislation and sets out the council's approach to investing in council homes, blocks and estates. This draft strategy also includes updating and 'greening' heat networks as well as moving forward with plans agreed by residents to rebuild the Tustin, Ledbury, and Aylesbury and Maydew estates.

6.2.6. The council's budget overspent in 2021-22 on temporary accommodation (TA) and through the budget challenge process a 'budget recovery board' was established to discuss, challenge and look for a way forward. Currently, there are too many households living in temporary accommodation and the council plans to build new council homes to give families somewhere secure and affordable to live. In order to keep building new council homes, the council is exploring new sources of funding, in addition to borrowing from government. The housing department is reviewing the new homes programme in light of changes with building costs, and funding availability. The Housing Delivery Board will continue to oversee the programme to ensure it remains viable and deliverable, identifying new risks and opportunities as they arise.

Local government funding

6.2.7 A highlighted risk, was the continued uncertainty around local government funding and the difficulties with planning assumptions where local government settlements were for one year only. When the council budget for 2022-23 was set in February 2022, it was based on robust and realistic assumptions that had been subjected to intense budget challenge from council members. However, it was noted that there were still significant risks, such as demand pressures on council services and the uncertainty of the wider economic environment.

6.2.8 Cabinet were regularly updated on the council's financial position in 2022-23, receiving reports on the council's financial position in July 2022, October 2022, December 2022, January 2023 and February 2023. These reports drew attention to the wider economic climate and set out possible financial scenarios for future years, culminating in the budget setting for 2023-24. Each report clearly stated the current economic climate, the risks to the council and the potential funding issues for future years and drew on the work undertaken by council members and officers through the budget challenge process. It allowed for both transparency and challenge and enabled a collaborative

approach to budget setting ensuring that the council's priorities were met whilst ensuring the financial sustainability of the council.

6.2.9 The July 2022 cabinet report highlighted the deepening cost of living crisis, rising interest rates impacting on the cost of financing the council's capital programme and the absence of any certainty of funding streams to support climate emergency plans. In September 2022, the economic outlook significantly worsened. The tax and policy changes announced in the 23 September mini-budget and subsequent U turns on corporation tax and the 45% higher rate of tax, created a rapid deterioration in the UK economy. Inflationary increases followed from the price rises in energy and the Bank of England (BoE) have responded by raising interest levels – currently at 4.5%. The October cabinet report highlighted these issues, and warned of further significant rises in interest rates to come. It was reported that additional resources would have to be factored into the budget in recognition of increased debt charges together with a review of the existing capital programme.

6.2.10 The macroeconomic climate materially deteriorated and the government had to reverse many of the policies set out in the mini budget to stabilise the economy. The Chancellor, Jeremy Hunt pledged to increase taxes to raise £35bn and reduce government spending by £24bn over 5 years. The budget was planned to encourage economic stability and consequently, a delay to many of the local government planned reforms.

6.2.11 Council budgets were squeezed by higher than expected cost pressures which reduced spending power. ONS data put inflation at 10.1% in the 12 months to March 2023. To help support council budgets additional resources for the unfunded cost inflation experienced by service departments has been factored into the 2023-24 budget together with additional contributions to risk reserves.

Southwark commitment to be carbon neutral by 2030

6.2.12 The council is delivering on a climate change strategy and action plan and continues to invest substantial resources in projects that contribute to this key priority, including the commitment to build energy efficient new homes, to provide efficient heating systems in council homes, to plant trees and to improve air quality. This continues to be a major commitment for the council.

Key governance areas in 2022-23

6.3 In 2022-23 the following governance areas have been highlighted in paragraphs 6.3.1- 6.3.19. These were:-

- Southwark Stands Together (SST)
- Cost of living crisis
- Re-organisation of the council's senior management structure
- The climate emergency
- Council services
- Southwark 2030

Southwark Stands Together (SST)

6.3.1. Southwark Stands Together (SST) affirms our commitment and pledge as a council to tackle racism, inequality and injustice, both within our communities and within the council. During 2022-2023, we established a new SST Programme Board, chaired by the Chief Executive and attended by members of the Corporate Management Team, to ensure that progress in delivering SST continues to be overseen by the most senior leaders of the council's workforce. Recordings of these meetings are made available on the council's intranet where they can be viewed by any employee.

6.3.2 In addition, we have strengthened the council's capacity to support the delivery of SST through the establishment of a new Equality and Diversity team, as well as new roles within our Human Resources (HR) and Organisational Development service, which are specifically focused on the workforce component of SST. In March 2023, we held a week of events – attended by residents and employees – to share and reflect on the progress we have made since SST was launched and reaffirm our commitment to tackling racial inequality and promoting anti-racist practice.

Cost of Living Crisis

6.3.3 Inflation and tax increases in 2022-23 contributed to an escalating 'cost of living crisis' as real income fell as a combination of high inflation outstripping wage increases and post April 2022 tax increases have squeezed incomes for many households. The Office for Budget Responsibility (OBR) anticipated that real household disposable incomes will be no higher in 2027 than they were in 2019.

6.3.4 The council prioritised support for the most vulnerable residents during the Covid-19 pandemic. In 2022-23, this support has continued with a renewed focus on supporting vulnerable residents through the cost of living crisis. The council recognised that the cost of living crisis was not short lived and that the risks to residents were so grave that a longer term response was required.

6.3.5 A Southwark Council Cost of Living Fund (SCCOLF) was created by bringing together funding from the Household Support Grant (HSG), the discretionary council tax rebate and contributions from the council. With this Fund, the council has created a support network for the most vulnerable. The council pledged support for free holiday meals for those children receiving free school meals during term time. Around 15,000 eligible children attending Southwark schools received holiday meals. Residents on low incomes could apply directly for support or be referred through the 'Community Referral Pathway'. In addition, a targeted support campaign for those mostly older residents that receive at home care packages was launched. These schemes have ensured that those most vulnerable residents have been identified and supported by the council. The 'community referral pathway' has had referrals from over 100 community organisations, including over 40 schools.

6.3.6 In addition, the council launched a new Southwark Energy Savers Service, so people on low incomes can access the best advice to keep bills down. Households facing an emergency and unable to meet the cost of fuel energy or other essentials could also apply to the Council's local welfare assistance scheme, the Southwark Emergency Support Scheme.

Re-organisation of the council's senior management structure

6.3.7 In December 2022, the Chief Executive, Althea Loderick, proposed a reorganisation of the council's senior management structure to ensure the council's officer leadership team was clearly aligned with the priorities and commitments set out in the renewed Council Delivery Plan. The proposals enabled the required leadership to continue transforming how the council works and delivered financial savings. Membership of the Corporate Management Team (CMT) has been changed to reflect this new structure.

6.3.8 The changes include:

- Establishing a dedicated Housing directorate;
- Rebuilding and consolidation of the 'corporate centre' to establish capacity to continue transforming how the council works. Enabled by creating two new Assistant Chief Executive posts;
- A dedicated Finance directorate. The Strategic Director, Finance and Governance, Duncan Whitfield, left the council and a new Strategic Director of Finance, Clive Palfreyman appointed;
- A new strategic leadership post shared with local health partners jointly funded by the council and the Integrated Care Board to enable the integration of local health and social care services;
- Renaming the Environment and Leisure directorate to 'Environment, Neighbourhoods and Growth' and transferring in the Director, Planning and Growth;

The proposals are a first phase of reorganisation. Further changes, post March 2023, are to be developed.

The climate emergency

6.3.9 The climate emergency is a major focus for the council, working in partnership with stakeholders, partners, staff and residents to tackle the effects of climate change. The council has published a Climate Emergency Strategy and Action Plan setting out how the council will become carbon neutral by 2030 and work to ensure the borough is also carbon neutral by 2030. The council has committed resources to a dedicated climate change team and the team continues to draw on a £2m reserve to deliver its work. The Action Plan is very ambitious and recognises that the resources are not in place to deliver it. The cost of the borough being carbon neutral is estimated at £3.9bn and the council will need central government to increase funding available to meet this challenge.

6.3.10 The council now considers climate impact as part of all of its decisions and plans to review how it procures to consider climate impact in procurement. The council recognises that there are challenges and often conflicting priorities. For example, meeting our commitment on building new homes, while at the same time reducing emissions. Good governance in the council is essential to identify and manage these issues.

Council Services

6.3.11 The Health and Care Act 2022 established Integrated Care Systems (ICS) which replaced the Clinical Commissioning Groups. The core ambition is to promote more joined up services and a focus on improving health. The council is part of the new South East London Integrated Care System which aims to bring together providers and commissioners of NHS services to meet the health and care requirements of their population. The implementation of the ICS has necessitated a number of changes to the council's governance arrangements. Whilst these changes are challenging, the council is well placed to support NHS colleagues, the community and voluntary sector and provider partners to ensure health provision reaches individual residents and families wherever and how they need it.

6.3.12 The council was rated 'good' by the Ofsted inspection of the council's children's services in 2022. The inspection concluded that children in Southwark who need help, protection and care continue to receive good services and as a result, children's lives are improved. It was recognised that children and their families had benefited from a strong political and corporate commitment across all areas of the council enabling significant investment in frontline staff.

6.3.13 The government set out its new plan for adult social care reform which included a lifetime cap on the amount anyone will need to spend on their personal care alongside a more generous means-test for local authority support. In the Autumn statement, these reforms have been delayed for another 2 years to October 2025 (now 10 years after the Dilnot reforms to social care and scheduled for post election). As the funding for these reforms has been recycled in the funding for existing social care demands in 2023-24, there is now a lack of earmarked funding to support these proposed reforms.

6.3.14 The council entered into a formal Safety Valve Agreement with the Department for Education (DfE) at the end of the 2022-23 financial year, which is a major programme put in place by the Department for Education (DfE) in recognition of the insufficient funding available for children and young people who have Special Educational Needs and/or Disabilities (SEND). The Programme focuses on improving SEND services in line with Southwark's SEND Strategy 2022-2025 and committed to reach an in-year balance on the DSG by 2024-25 and eliminating that deficit by 2026-27 with the support of £23m Safety Valve funding as set out in the DSG Management Plan. Upon entering into the Agreement, the Council received an initial grant of £9.2m in 2022-23 reducing the cumulative deficit at year end to £14.5m.

6.3.15 Alongside the emerging service improvement programme associated with delivering the SEND Strategy, the council has established a Safety Valve Delivery Programme to support and monitor the progression and delivery of the actions required to achieve the financial targets contained in the agreed DSG Management Plan. The Safety Valve Delivery Programme Board reports to the Budget Recovery Board, chaired by Strategic Directors.

6.3.16 The pandemic and the resultant imposition of lockdowns and currently the cost of living crisis have all come together in a perfect storm and have had a fundamental impact on the operation and financial performance of the council's leisure facilities. The council continues to prioritise the health

and wellbeing of Southwark residents. In September 2021, Cabinet approved the in-sourcing of the council's leisure facilities which will take place on 21 June 2023. Work continues to enable this including the TUPE transfer of 350 staff, health and safety compliance requirements across the sites, asset management, new ICT infrastructure and new finance systems. Robust governance arrangements have been put in place during 2022-23, to support this major insourcing, which will then also support the ongoing management and operation of the centres thereafter. An update on the progress of the progress of in-sourcing was reported to the audit, governance and standard committee in February 2023.

6.3.17 The review of the compliance with the FM code in Southwark included reviewing financial sustainability against the CIPFA Financial Resilience Index over the previous three years. The council scored as 'low risk' on the reserve sustainability measure which looks at changes in reserves over a three year period. However, the council remains in the bottom third of London authorities for reserve levels. The council remains cautious around the use of reserves as reductions in overall levels would create a significant risk for the authority.

6.3.18 The corporate risk register was updated in 2022-23 together with a refreshed risk management policy and strategy. This indicated both an increase in the number of corporate risks and some change to the type of risks faced by the council. The increase in risk is symptomatic of an extremely uncertain economic position, which impacts directly on the management, operations and financing of a local authority.

6.3.19 But despite these challenges in 2022-23, the council has continued to maintain consistent essential services for residents together with ensuring the delivery of key council commitments. The council's strong collaborative approach has continued to be effective at achieving a unified response together with key partners in the NHS and voluntary and community sectors. The continued ability of the council to adapt and change during the pandemic has led to more agile service provision during the cost of living crisis. This adds a layer of assurance to the effectiveness of the council's business continuity plans, communications strategy and governance arrangements.

The risks moving forward have been detailed in the Areas of Significant Change.

Areas of significant change

7.1 The council also faces a number of areas of significant change that will require consideration and action as appropriate in 2023-24 and the medium-term. Significant issues identified include:

- Impact of cost of living crisis on council services 2023-24
- Housing
- Southwark 2030
- Macroeconomic outlook
- Local government funding
- Recruitment and retention of staff
- Change of external auditor

Impact of Cost of Living Crisis on council services 2023-24

7.2 In the Spring Statement 2023, the Institute for Fiscal Studies (IFS) commented that the overall outlook for public finances still looked difficult. It was expected that inflation would fall below 10% but there continues to be very high food price inflation of nearly 20%, which is of particular concern for low income families who spend a greater share of their income on food than higher income households. Growth in average total pay was 5.9% amounting to the largest falls in growth since records began in 2001. Taxes have continued to rise to their highest ever level, and tight spending is pencilled in from 2024. Households will continue to feel pain in the longer term, as even if inflation comes down, prices will remain high. Earnings lag behind inflation and the freezing of tax and national insurance thresholds will add further pain. This will create further hardship for those most vulnerable.

7.3 The government announced at the autumn statement that measures to support energy costs were to be scaled down with costs capped at £3,000 per annum (from £2,500) in 2023-24. But targeted support, through the Household Support Fund, for low income households, pensioners and those on disability benefits would be extended for a further year to March 2024.

7.4 The council has pledged to continue to tackle the cost of living crisis for residents through a number of programmes in 2023-24, using both government grants and council resources. These initiatives include:

- Further resources added to the SCCOLF for 2023-24;
- Support for fuel costs in response to the government scaling down universal support;
- Continuing access to the Southwark Energy Savers Service;
- Free school meals during the holidays for those primary age children receiving free school meals;
- Re-launch of the community pathway programme to ensure resources are targeted to those most in need;
- Expansion of the support given through the council's emergency schemes to include those on low incomes who are not entitled to benefits as well as those that are eligible;
- Continue the council's free healthy school meals provision ;
- Continuing to invest in the local voluntary sector.

Housing

7.5 Southwark is one of the largest social landlords in the country, consisting of 55,000 rented, leaseholder and freeholder homes across the borough. The cost of living and inflationary pressures over the past 6 months have had huge ramifications on the Housing Revenue Account (HRA). The HRA reflects the statutory requirement to account separately for all costs and management of the council's housing stock, offset by tenants' rents and service charges, homeowner service charges and other income.

7.6 The government have imposed restrictions on the rent rise for social housing at 7%. This has meant that rent rises have not risen in line with inflation, which will result in a cut to the overall HRA programme, given other costs have significantly increased. However the rent increase will still affect many residents where rent rises are not covered by benefits. In addition, there have been sharp

increases in fuel costs which have affected both residents paying their bills directly to energy providers, but also to our tenants on communal heating systems. This is likely to lead to a significant increase in rent arrears and will need close monitoring, especially if fuel costs do not begin to fall back down quickly.

7.7 The council needs to consider the key housing priorities going forward within a climate of limited financial resources. And at the same time, ensuring the affordability of the housing capital programme alongside a viable revenue account. This is aided by the HRA business plan which considers both revenue and capital financial projections over the short, medium and longer-term. These projections can help determine policy direction, prioritise spend programmes and mitigate against risk. The importance of the plan has significantly increased recently due to emerging funding challenges such as increased interest rates, soaring inflation, the 7% rent cap, and extensive legal obligations arising from the Building Safety Act.

7.8 The Building Safety Act 2022 requires full implementation of the Building Safety Act by October 2023. Southwark is one of the largest landlords with over 170 high-rise blocks. Notwithstanding the critical importance of these new duties to augment residents' safety, they create a substantial additional financial pressure on already constrained resources, particularly capital, both for the initial surveying programme and the cost of remediation works arising from the surveys, which is currently an unknown, but potentially significant. For 2023-24, further resources of £6.3m are earmarked within the Asset Management budget to meet a range of cost pressures and new service commitments. The increasing responsibilities and obligations around building safety will also result in the need for more training of staff, and an increased pressure on already severely stretched resources. We know we need to invest in keeping residents safe, renewing heat networks, preventing damp and mould problems, reducing greenhouse gas emissions and helping the council to be carbon neutral by 2030.

7.9 The council is currently undertaking a wholesale review of its asset management strategy, to subsume new requirements into its business planning, which will be at the expense of other less-essential programmes. Capital resources are under extreme pressure and borrowing to support the new homes programmes continues to rise with a consequent revenue financing impact on the HRA. In addition, interest rates, which have been at historic lows for a prolonged period, continue to rise, which impacts the cost at which the council can borrow. Rates are expected to rise even further in an attempt to control continuing high levels of inflation.

7.10 The council has identified closing the gap in inequalities, thriving neighbourhoods and people powered as key transforming priorities and these guide approach to the landlord and tenant relationship. The tenant forum meetings and homeowner forum meetings have been revived since the pandemic with in-person attendance allowing effective joint working with residents. The council has set up a new housing forum with attendance from the Chief Executives of housing associations with significant stock in the borough. Actions plans have been put in place to continue to improve the housing repairs service and to align the response time to complaints to the Housing Ombudsman codes.

7.11 The council is preparing for a new regulatory regime from the social housing regulator in 2024 onwards. The council has been working with Housing Quality Network to ensure we can address any identified gaps and issues to ensure the council is complying with the required standards as set by the regulator.

Southwark 2030

7.12 The council continues to commit to a shared long term vision of the future, despite an uncertain economic climate. The council has created a £3m Southwark 2030 Fund to invest in projects that will help realise the ambition of Southwark 2030. These projects will be inspired by the shared needs and desires identified through engagement with residents, community organisations and businesses throughout the borough.

Macroeconomic outlook

7.13 In the spring 2023 budget, the Chancellor, Jeremy Hunt, set out his plan for stabilising the UK economy and reducing inflation. The Chancellor's plan was essentially two separate budget planning periods. The first for the next 2 years, 2023-2025 before the general election, which retains the targets set out in the 2021 Spending Review. And the second planning period, 3 years from 2025-2028, where average government spending is planned to rise by 1% p.a. For local government, this suggests a potential cash reduction over the 3 year period 2025-28 as other government departments have already secured rises above the announced 1% (NHS/Defence). In addition, by May 2023, the Bank of England had raised interest rates for the 12th time in a row to 4.5% after UK inflation failed to drop as predicted. So it's likely that any government budget plans will be changed. A possible general election in autumn 2024 creates further uncertainty around long term economic planning so any prediction post 2025 is highly speculative.

Local government funding

7.14 The local government settlement for 2023-24 announced an average 9% increase in core spending power, to help deal with inflationary and other cost pressures together with extra funding for social care. This social care funding had been earmarked for the adult social care reforms but these were delayed until October 2025 and resources recycled to support current care pressures. There was no indication of how the delayed adult social care reforms can now be financed, so there is uncertainty as to whether the plans will go ahead.

7.15 The policy statement had suggested that this would be a two year settlement allowing for more stability and longer term planning. However, at the provisional settlement in December 2022, the proposed funding allocations were for 2023-24 only and a set of principles for funding in 2024-25. Without individual authority level allocations, a detailed 2-year budget cannot be produced with any degree of certainty.

7.16 Allocations for the Dedicated Schools Grant (DSG) were published alongside the provisional settlement but the planned policy reforms aimed at reducing the pressure on high needs budgets have not been published to date. This will be needed to ensure that high needs deficits are eliminated before the end of March 2026, when the statutory override arrangements are due to end.

Recruitment and retention of staff

7.17 The Spring 2023 statement made no announcements on public sector pay and the IFS

commented that if public sector pay continues to fall in real and relative terms to the private sector there will be a consequence in terms of recruitment, retention and service delivery. Shortages of workers due to people retiring earlier and the continuing impact of Brexit, will create further competition with private sector companies who have already adapted to this challenge by higher wages and enhanced benefits. The council will have to ensure that retention and recruitment of professional and experienced staff are prioritised. This will be essential to support the ambitious council capital programme and to drive through the commitments in the Council Delivery Plan.

Change of external auditor

7.18 The council is part of the Public Sector Audit Appointments (PSAA) national scheme which appoints the council's external auditors. KPMG has appointed to act as the external auditors for five years from 2023-24. They replace the current auditors, Grant Thornton. Currently, there is significant uncertainty, accounting technicalities and capacity issues in the external audit market, with delays nationally to signing off local authority accounts. A change to the external auditor may add to these delays and disruption in the first year of the audit in 2023-24.

Conclusion

8.1 The council has been hugely impacted by instability in the economy and the consequent ongoing cost of living crisis in 2022-23. Governance arrangements have again been tested but have found to be robust and resilient.

8.2 The council is satisfied that appropriate governance arrangements are in place. We propose over the coming year to take steps to address the matters identified above to further enhance our governance arrangements in these challenging times.

Signed on behalf of Southwark Council:

Althea Loderick

Kieron Williams

Chief Executive

Leader of the Council

Date:

Date: