

# Auditor's Annual Report on London Borough of Southwark Council

2021/22

January 2024

Interim Report subject to  
conclusion of the 21/22 Audit



# Contents

Section	Page
Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources	3
Executive summary	4
Opinion on the financial statements and use of auditor's powers	7
Financial sustainability	13
Governance	19
Improving economy, efficiency and effectiveness	21
Follow-up of previous recommendations	27
<b>Appendices</b>	
Appendix A – Responsibilities of the Council	33
Appendix B – Risks of significant weaknesses, our procedures and findings	34
Appendix C – An explanatory note on recommendations	35
Appendix D – Sources of evidence	36



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

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



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

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# Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement. Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



## Financial sustainability

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



## Governance

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



## Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas is set out on pages 13 to 27 Further detail on how we approached our work is included in Appendix B.

# Executive Summary

# Executive summary - Overview



## Value for money arrangements

### Introduction

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

Under the Local Audit and Accountability Act 2014, in our role as appointed external auditor, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is done through our annual Value for Money (VfM) assessment, which focuses on three themes:

- Financial Sustainability
- Governance
- Economy, Efficiency and Effectiveness

We have completed our VfM assessment for 2021/22. This comprised our standard VfM work programme, covering the themes of financial sustainability, governance and the 3 E's (economy, efficiency and effectiveness). We have also audited the Council's pension arrangements for the year. Following discussions during the year with the Strategic Director of Finance and Governance we also undertook some additional work in relation to the financial resilience of the HRA. This report is presented as an interim whilst we conclude our 21-22 financial statements audit. We did receive an objection to the financial statements that we are in the process of investigating and on receipt of the final Internal Audit report and our outstanding queries we will conclude and report, in an appropriate manner to the Council in due course.



### Financial sustainability (Significant Weakness)

The Council continues to operate in a financially and operationally challenging environment. Their financial planning both in the short and medium term is on a sound footing with a prudent assumptions being built into both. The signals are that the challenges will continue so the need for the structured and disciplined approach to managing finances and reserves which the Council has demonstrated will continue to be crucial. Our report in 2020-21 recommended that the Council should start to publish its financial projections over a 3-5 year period in line with other Councils and as recommended by CIPFA in their best practice guidance. We understand the challenges of doing this in the current volatile economic climate but arguably this emphasises the need for financial planning and projections rather than absolving Councils of preparing them. To that end we have repeated our recommendation of last year's report.

**In addition, we have identified a significant weakness in relation to the adequacy of the Council's overall arrangements for financial resilience of the Council's large social housing portfolio. This relates to the adequacy of the Council's arrangements for responding to the challenges posed by legislative and regulatory changes, the need to maintain basic housing standards and the responsibility to ensure the future affordability of the capital programme. At present the Council faces significant gap between the forecast capital spending that is needed to maintain housing stock to a decent standard and the funding that is currently available to achieve this, alongside the current housebuilding programme.**

We have also made two improvement recommendations in relation to financial planning in the medium term.



### Governance

The Council has made significant improvement to address recommendations from our VfM report of 2020/2021, strengthening financial and governance arrangements. This would be strengthened further if the MTFS included financial projections over a 3-5-year timescale to allow a better understanding of the longer-term financial position of the Council.

**We have not identified any significant weaknesses nor recommendations for improvement in this area.**



### Improving economy, efficiency and effectiveness

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have some concerns over the procurement service which needs to adapt quickly to take on board the new Government requirements, but we take assurance from the plans in place to do this.

**We have not identified any significant weaknesses though we have made two recommendations for improvement.**












# Executive summary – Summary conclusions




## Our overall conclusion on the Council's arrangements to deliver Value for Money in 2021/22

Our risk-based work on financial sustainability has identified significant weaknesses in arrangements to deliver value for money in the use of Council resources that impact on both the Financial Sustainability and Governance thematic areas of review.

For the purposes of our 2021/22 assessment these weaknesses are assessed to have carried forward into that year while the new arrangements embed and the Improvement Plan continues to be delivered. However, we are pleased to recognise the significant progress that has been made as reflected in the follow up to our Governance Review issued to Cabinet in December 2022.

No further significant weaknesses in arrangements were found across the three VfM themes. However, additional improvement recommendations have been made which we set out in this report.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	Risk identified because of the Council's low level of reserves	 No significant weaknesses in arrangements identified but improvement recommendations made	 Significant weakness in arrangements identified and two improvement recommendations have been made.	
Governance	No risks of significant weakness identified.	 No significant weaknesses in arrangements identified	 No significant weaknesses in arrangements identified	
Improving economy, efficiency and effectiveness	No risks of significant weakness identified but improvement recommendations made	 No significant weaknesses in arrangements identified but improvement recommendations made	 No significant weaknesses in arrangements identified but improvement recommendations made	

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

# Executive summary – Significant Weakness

## Overview of the issue

Our audit of VfM in 2021/22 has highlighted concerns relating to the Asset Management Strategy (AMS) and the Quality Homes Improvement programme (QHIP) which underpins that strategy as well as the extent of stock condition information which we referenced in our 2020/21 Auditor's Annual Report. We are concerned that under current projections, the Council does not have access to sufficient funds to ensure the affordability of its capital programme impacting on the Housing Revenue Account (HRA). This is especially the case given the competing priorities of building new homes, responding to the net zero agenda and meeting new building and fire safety regulations post Grenfell.

## AMS and QHIP Governance issues

The 2016 AMS identified a funding requirement (in 2015 terms) of £794 million to deliver improvements to the Council's housing stock to bring the homes up to the required standard and this gave rise to the QHIP programme. A budget was set for year 1 of the programme, with the delivery of works outlined in the AMS for later years being dependent on resources being identified.

At 31 March 2023, after seven years of the ten-year QHIP programme, only £341m, (some £152m below the cumulative expenditure of £493m that the 2016 AMS had anticipated) had been spent. In the early years, the programme did not gear up as quickly as anticipated and then from March 2020 to December 2022, progress was limited by the measures put in place to deal with the impact of COVID-19. In 2022/23, despite much of the financial year still being impacted by restrictions arising from COVID-19, the expenditure for the year had increased up to 85% of annual programme expenditure outlined in the 2016 AMS for that period. However, a significant amount of the expenditure for 2022/23 was in relation to works not anticipated by the AMS when approved in 2016 (for example works arising from more stringent fire and building safety regulations, in no small part brought in following the Grenfell disaster.)

We have several concerns about the approach and delivery of the AMS and associated QHIP programme:

- Regardless of the duration of the QHIP programme, we would expect the AMS to be fully refreshed every five years rather than having a ten-year horizon. Legislation, regulations and expectations are always likely to change over a five-year period let alone a ten-year period. A consequence of the lack of action to review and revise the strategy over the past 2-3 years has been that the Council has not been well positioned to adapt to the scale of potential inflationary pressures on the existing programme and the cost of meeting new requirements.

- We would also expect to see an annual review of how delivery against the planned programme was progressing. We would expect this to give rise to extending timescales, re-profiling expenditure and identifying additional funding requirements at an early stage, recognising the budget, was the first consideration. An annual review of the programme might also trigger revisions to the strategy. Best practice is to have a 'mid-term' review of the Asset Management Strategy. In this case, it would have meant a major review of QHIP in 2019, following annual reviews in 2017 and 2018. Whilst the Council was sighted on the challenges, there were also competing priorities including the New Homes programme and the Net zero/refit objectives which required consideration over time.
- This left the Council having to react at relatively short notice to managing a significant gap the funding of its capital commitments in the Housing Revenue Account.

If the above arrangements had been in place, potential inadequacies in stock condition data, increasing costs and slower physical delivery could have been acted upon sooner. More timely and better-informed discussions between officers and members could have taken place and appropriate decisions taken. This would have been expected to give rise to a reprofiling of programmes and expenditure targets. This would have given the opportunity to have reviewed plans sooner, to have been able to arrange revised timescales and budgets and to have adapted them to the finances sooner.

## Key recommendation 1:

**We recommend that the Council introduces arrangements to refresh its AMS at least every 3-5 years. This would be supported by an annual review process which assesses delivery against the programme and carries out re-profiling and forecasting of costs.**

## AMS and QHIP Financial Management Issues

As already noted, the AMS and QHIP programme established in 2016 originally estimated an expenditure requirement of £794m (in 2015 terms). In our view it is likely that this was understated due to the Council's potential inadequate stock condition data at that time. The original costings do not appear to have subsequently been updated for changes to the building cost index, making it impossible to deliver the envisaged physical works over ten years on outdated costings and forecasts.

# Executive summary – Significant Weakness

In addition, underspends against AMS projections in earlier years have not been compensated for by augmenting future years programmes by the reprofiling of works and therefore making resources available to deliver the works anticipated in the AMS. For the remaining three years of the QHIP programme, the annual budget is c£100m. It would need to be over £150m pa to invest the £794m in the Council's housing stock, which was the requirement identified in the AMS. This does not include any allowance for inflation or an assessment of the quantum of outstanding QHIP programme works required.

## Key recommendation 2:

**We recommend that the Council carries out a refresh of the costings for all housing capital expenditure (including the QHIP programme) and establishes how the resulting re-profiled programme might be funded. We note that the Council has started the process to address this (e.g. by commissioning a new stock condition survey from Savills). We note that Officers are communicating with members accordingly.**

## Stock Condition

Our VfM report of 2020/21 identified a number of recommendations relating to Housing. Two specifically focused on the condition of Housing stock in the borough. We recommended that:

- A comprehensive exercise is undertaken to improve the quality of stock condition survey data, beyond that which is currently seen as the standard within the sector. The Council could consider revising arrangements so that when team members visit homes, they are involved in validating existing records and updating stock condition data as this will give rise to a sense of ownership and increase confidence in the stock condition survey data amongst team members.
- Resources are put in place to ensure that stock condition survey data is kept up to date. If all team members visiting homes are involved in validating existing records and updating stock condition data this will give rise to a sense of ownership and increase confidence in the stock condition survey data amongst team members.

We note that stock condition data has recently been collected for 'high risk' properties. This data will inform a revised, prioritised programme to ensure that all homes remain safe and legal. We reiterate the recommendations from the 2020/21 VfM report in relation to management of stock condition data. We understand that the Council is in the very early stages of the implementation of a new stock condition database. It is essential that the recently collected 'snapshot' data is uploaded to the new database and maintained to ensure that it remains accurate and up to date.

In relation to the significant weaknesses in arrangements noted on the previous page, we note that had the stock condition data had been complete, accurate and held in a database that was fit for purpose, then this should have driven the review and refresh of the AMS and highlighted issues with the delivery of the capital programme. It could also have enabled effective sensitivity analysis on the level of risk and helped anticipate future cost pressures. For example, in the light of the any proposals for additional legislative and regulatory requirements, senior officers and members could have been appraised of likely costs in advance and funding sources could have been identified at a much earlier stage. The absence of high-quality stock condition data undermined the ability of the Housing team to accurately forecast capital costs and blinded them to risk, contributing to the lack of effective action.

## Key recommendation 3:

**We recommend that the Council, as an immediate priority and a matter of urgency, uploads the recently collected data on stock condition into its new database.**

The proposed programme currently under discussion postpones the remaining QHIP works. If this occurs, it will have an adverse impact on tenant's homes in terms of continuing to meet the decent homes standard as well as planned replacement of other property components (e.g. windows, doors, rooves etc). If not addressed, this could lead to a decline in service quality that is likely to attract the attention of the Regulator of Social Housing, Housing Ombudsman and adversely impact the VfM theme of Economy, Efficiency and Effectiveness in future years. We will continue to monitor the development of risks in the area of Housing Service Delivery.

We are concerned that funding is not in place to enable all of the works required. These works include not only those required to address additional regulatory requirements, but also to maintain homes in a sound and decent condition and to meet the Council's net zero objectives.

## Key recommendation 4:

**We recommend that the Council addresses the issue of how it will fund the commitment it has to all its tenants to meet the decent homes standard. We note that the Council has started the process to address this and is communicating with members accordingly**

## Conclusion

We consider that the above observations constitute a significant weakness in terms of the financial sustainability of the capital and revenue aspects of the housing service operated through the Council's Housing Revenue Account.



# Key Recommendations



## Financial Sustainability

### Recommendation

We have Made four Key recommendations in regard to this significant risk. We recommend that:

- The Council introduces arrangements to refresh its AMS at least every 3-5 years. This would be supported by an annual review process which assesses delivery against programme and carries out re-profiling and forecasting of costs (KR1).
- The Council carries out a refresh of the costings for all housing capital expenditure (including the QHIP programme) and establishes how the resulting re-profiled programme might be funded. (KR2).
- The Council, as an immediate priority and a matter of urgency, uploads the recently collected data on stock condition into its new database (KR3).
- The Council addresses the issue of how it will fund the commitment it has to all its tenants to meet the decent homes standard (KR4).

### Why/impact

If not addressed, the Council will not be able to fund its planned capital programme and deliver minimum standards of housing to its constituents.

### Auditor judgement

Significant Weakness due to the magnitude of the gap in funds available and the need for continued improvement in the availability of stock condition information.

### Summary findings

We have identified a significant weakness in relation to the financial management of the Council's large social housing portfolio. This relates to its response to the challenges posed by legislative and regulatory changes, the need to maintain basic housing standards and the responsibility to ensure the future affordability of the capital programme. At present the Council faces significant gap between the forecast capital spending that is needed to maintain housing stock to a decent standard and the funding that is currently available to achieve this, alongside the current housebuilding programme.

### Management Comments

The council is currently refreshing its entire capital programme, including the Asset Management Strategy (AMS) and will work towards both a 5-year review and an annual update as part of its annual capital outturn monitoring reports. This work will necessarily involve a review of the cost of the programme and, in a limited funding environment, will also need to incorporate a re-prioritisation of the various streams within the AMS to ensure the council is meeting all its regulatory requirements, including the building safety act, fire safety act and the decent homes standards. The council is constantly improving its stock condition data and will continue to ensure it is accurate, up to date and informs the regular programme review.

The range of recommendations that external auditors can make is explained in Appendix C

# Opinion on the financial statements



## Audit opinion on the financial statements

The Council's 2020-21 and 2021-22 Accounts are still being audited at the date of issue of the AAR. The 2020-21 accounts were caught by the sector-wide issues relating to Highways Network Assets, which largely have been resolved by the updated guidance issued by CIPFA earlier in the year. The Council have revised their 2020-21 Accounts in line with the guidance and we are comfortable with the revised disclosures. We anticipate being able to close off 2020-21 in July 2023 following the completion of our NHS commitments. We anticipate issuing an unqualified opinion on these accounts.

In respect of 2021-22, we commenced our audit of these accounts in October 2022, but encountered challenges and delays which meant we were unable to complete this work by the end of January 2023. Since then further sector-wide guidance has been issued in respect of the IAS19 Valuations included within the 2021-22 Council and Pension Fund accounts, and updated valuations have been obtained from the Council's Actuary. We will return to complete the 2021-22 Accounts prior to us starting the 2022-23 Accounts, albeit this work is likely to take place later in the year. We are currently discussing and agreeing a timetable with management for this work. As it stands we are also proposing an unqualified opinion on the 2021-22 accounts, but this is subject to the completion of the outstanding testing and consideration of the revised IAS19 information.

We are also dealing with an objection to the 2021/22 Financial statements, however, based on the work carried out to date, the specific objection does not relate to a material item of accounts so would not prevent the accounts from being signed.

Under the PSAA Contract, 2022-23 will be our final year as the Council's external auditor and we will look to complete our work in a timely manner to enable an efficient handover to the new external auditor.



# Use of auditor's powers

## Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local Council accounting in the United Kingdom 2021/22

The audit for 2021-22 is in the process of being concluded, and is expected to be signed in February 2024. The delays in the audit process have been reported.

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

To be finalised on conclusion of the audit.

## Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

Not applicable at this point in time. As noted, we are still to conclude on an objection we received to the 2021/22 annual report and accounts. We will provide an update, as relevant, following our conclusion.

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

To be finalised on conclusion of the audit.

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the Council or an officer of the Council:

- is about to make or has made a decision which involves or would involve the Council incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

To be finalised on conclusion of the audit.

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an Council, or of a failure by an Council to act, which it is reasonable to believe would have an effect on the accounts of that body.

To be finalised on conclusion of the audit.

# Key Findings from our VfM Review 2021/22

# Financial sustainability



## We considered how the Council:

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

## Financial Planning and Managing Pressures

The year 2021/22 and the first three quarters of 2022/23 have been a challenging period for the Council in terms of its medium-term financial planning, as it has for all local authorities. During 2021/22 the Council continued to experience the financial impact of COVID-19. Key financial pressures continued to be in the areas of Adult Social Care and Children's Services. In 2022/23 a number of new financial pressures have arisen, as a result of a sharp downturn in economic conditions both in the UK and globally, that significantly increased the magnitude of inflationary pressures from the early part of 2021/22, beyond what had been projected when the budget was set.

Assumptions underpinning revenue budgets for 2022/23 and over the medium term, which were agreed only in February 2022, have had to be revised following the significant economic challenges and cost increases affecting the global economy. In particular employment costs for direct employees and those of providers, premises costs (energy inflation), transport costs (fuel inflation) and of the general impact of inflation on the purchase of goods and services, including suppliers passing on additional costs or renegotiating contract prices have impacted all Councils. Some of the most significant levels of inflation are being experienced in the construction sector and the Council has also reacted to heighten the risk in the Regeneration and Capital programmes.

In our discussions with the S151 officer and the Head of Finance it has become clear that they have recognised these pressures and have sought to identify savings through the Directorates, although inevitably given some of the cost increases they have had to use some of their accumulated reserves to set a balanced budget. Overall, inflation and other factors have also led to significant increases in the Council's projected funding gap for 2023-24 (£16.4m). The Council revised its MTFS in the light of the Local government funding settlement in December 2022. We are pleased to see that the Council is proposing a balanced budget with £16.4m savings identified to achieve this.

The Council has not published a Medium Term financial position as it has stated that due to the Government only providing a single year settlement so it is very difficult to plan beyond that year as there is too much uncertainty.

This position is out of line with our recommendation in our 2020-21 VfM audit report which recommended a 3-5 year horizon for medium term financial plans. It is also out of kilter with CIPFA recommended best practice which states that "Effective financial management in the public sector has always been built on planning for the long-term".

We note that 3-year budget plans are in fact prepared by Service Directors so the information is available and these could be used as the basis for a Medium Term financial forecast. The Council's approach is also out of kilter with the majority of other Councils who are in the same position of funding uncertainty though the Council has stated they plan to introduce 3-year forecasts for the 2024-25 budget year onwards. Accordingly, we repeat our recommendation from last year's audit.

**Improvement recommendation: We recommend that a comprehensive MTFS projection is included either in the Policy and Resources Strategy paper that accompanies the budget in the February report to Cabinet, or in the Medium-Term Financial Strategy document. This should outline the base case financial projection over a 3-5 year horizon and the key funding and cost assumptions. It should also demonstrate how longer-term efficiency programmes can contribute to reducing projected deficits in future years. And the extent to which the risk can be mitigated through reserves and other measures**

## Savings plans

The Council has taken a conscious decision not to establish a savings/transformation programme to help identify potential savings opportunities. This type of approach is regarded as both expensive and not always the optimal solution. Instead, Service Directors are given responsibility for identifying savings and this is done via the budget process. The 2023-24 budget document includes appendices identifying efficiencies in Directorates, Income generation proposals and savings impacting service levels. It is through these savings plus a contribution from Reserves of £3m that the Council has been able to balance the 2023/24 budget.



# Financial sustainability

## Managing Financial Resilience and Reserves

As noted previously, 2022/23 has been a particularly difficult year in which to plan Council finances. Underspends from 2021-22 were carried forward into reserves and its relatively strong opening reserves position have been used to smooth the overspends that have arisen during 2022/23. The Council's most recent forecast reserves position is shown in the table below:

	31 March 2022 £000	31 March 2021 £000	Movement £000
<b>General Fund Balance</b>	<b>(22,445)</b>	<b>(21,002)</b>	<b>(1,443)</b>
<b>Earmarked Reserves</b>			
Corporate projects and priorities	(18,876)	(15,514)	(3,362)
Service reviews and improvement	(34,554)	(24,218)	(10,336)
Capital programme and capital investment	(36,723)	(28,403)	(8,320)
Strategic financial risk	(65,597)	(61,824)	(3,773)
Technical liabilities and smoothing reserves	(26,618)	(21,229)	(5,389)
<b>Subtotal</b>	<b>(182,368)</b>	<b>(151,188)</b>	<b>(31,180)</b>
Covid-19 reserves	(25,872)	(53,425)	27,553
<b>Subtotal</b>	<b>(25,872)</b>	<b>(53,425)</b>	<b>27,553</b>
<b>School reserves</b>			
School balances	(14,391)	(13,813)	(578)
<b>Subtotal</b>	<b>(14,391)</b>	<b>(13,813)</b>	<b>(578)</b>
<b>Housing Revenue Account (HRA)</b>			
HRA balance	(26,130)	(28,346)	2,216
Major repairs reserve	-	(3,500)	3,500
<b>Subtotal</b>	<b>(26,130)</b>	<b>(31,846)</b>	<b>5,716</b>
<b>Total revenue usable reserves</b>	<b>(271,206)</b>	<b>(271,274)</b>	<b>68</b>
<b>Capital reserves</b>	<b>(100,419)</b>	<b>(71,771)</b>	<b>(28,648)</b>

Despite the challenging past 12-18 months, the Council's reserves position remains positive, however we note that due to the absence of medium-term forecasts it is difficult to assess the potential reserves position in the future. Given the scale of the likely financial challenges the likelihood is that the Council's reserves will come under pressure, and it is important to understand how the Council is addressing the issue of potential reserves depletion in the medium term. We understand the limitations of the forecasts given the uncertain funding regime but we still feel the Council should be able to make a 3-5 year forecast and include within that the impact on reserves. We note that while the COVID-19 Reserve has been depleted, other earmarked reserves have been increased in 2021/22.

**Improvement recommendation: The Council should work pro-actively to build reserves in line with a robust assessment of risk over the medium term to strengthen financial sustainability beyond 2023/24.**

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## Financial Performance in 2021/22

The overall 2021-22 outturn position (see table below) shows a nil variance after movements to reserves and application of COVID-19 emergency funding. Within the overall position, additional costs and lost income due to the pandemic amounted to £13.5m which has been met by emergency funding support (including sales, fees and charges compensation).

General Fund	Original Budget £000	Budget Movement £000	Revised Budget £000	Net Spend in Year £000	Year-end reserve movement £000	Total use of resources £000	Variance after use of reserves £000
Children & Families	65,440	318	65,758	68,568	-	68,568	2,810
Adult Social Care	86,236	27	86,264	83,061	-	83,061	(3,202)
Commissioning & Central	4,629	-	4,629	4,826	-	4,826	197
Education	21,162	(2,941)	18,222	17,984	-	17,984	(237)
<b>Children &amp; Adults (excl. DSG)</b>	<b>177,468</b>	<b>(2,596)</b>	<b>174,872</b>	<b>174,440</b>	<b>-</b>	<b>174,440</b>	<b>(432)</b>
Dedicated Schools Grant	150	(150)	-	1,056	-	1,056	1,056
Environment & Leisure	87,811	1,984	89,795	90,381	-	90,381	586
Housing & Modernisation	61,168	(755)	60,413	68,218	-	68,218	7,805
Chief Executive's	(302)	1,521	1,219	3,049	-	3,049	1,830
Finance & Governance	20,865	364	21,229	21,187	-	21,187	(43)
Public Health	(0)	-	(0)	(0)	-	(0)	0
Strategic Finance	(10,893)	641	(10,252)	(24,452)	17,902	(6,550)	3,702
Support Cost Reallocations	(41,332)	(1,009)	(42,341)	(42,341)	-	(42,341)	-
Contingency	4,000	-	4,000	4,000	-	4,000	-
Contribution from Reserves	(5,815)	-	(5,815)	(5,815)	-	(5,815)	-
<b>Net Revenue Budget</b>	<b>293,121</b>	<b>-</b>	<b>293,121</b>	<b>289,724</b>	<b>17,902</b>	<b>307,626</b>	<b>14,505</b>
DSG overspend taken to DSG adjustment account				-	(1,056)	(1,056)	(1,056)
Covid-19 emergency funding support				(13,449)	-	(13,449)	(13,449)
<b>Outturn after reserve movements</b>				<b>276,274</b>	<b>16,846</b>	<b>293,121</b>	<b>-</b>

For several years previously the Council had planned for the use of reserves to help smooth the impact of government funding reductions and other budget pressures, especially during the period of austerity. Not only did this help to protect Council services but it has also allowed time to transition towards new ways of working, productivity improvements and efficiencies. There were no budgeted contributions from reserves in 2020-21, however £5m was earmarked to meet the budgeted contribution in 2021-22 and a further £2.5m to help mitigate the forecast deficit in 2022-23.

Overall, the Council was able to deliver to budget and maintain a stable financial position at the end of 2021/22. It was also able to consolidate and continue to build the level of reserves available to manage future financial risks.

# Financial sustainability

## Financial Performance 2022/23 to date

As at the third quarter (Q3) the Council is reporting an overall projected outturn position for the General Fund of an overspend of £6.1m. The table below shows the projected departmental budget outturn variances together with the estimated utilisation of reserves as at the end of 2022-23.

General Fund	Original Budget	Budget Mov't	Revised Budget	Forecast Spend in Year	Variance before use of reserves	Forecast Reserves Mov't	Total use of resources	Variance after use of reserves
	£000	£000	£000	£000		£000	£000	£000
Children & Families	67,317	(2,300)	65,017	67,500	2,483	(124)	67,376	2,359
Adult Social Care	77,710	2,416	80,126	82,356	2,230	(2,491)	79,865	(261)
Commissioning & Central	5,017	-	5,017	5,502	485	(140)	5,362	345
Education	19,526	(1,238)	18,288	22,798	4,510	(1,226)	21,572	3,284
Public Health	(1)	-	(1)	(1,427)	(1,427)	1,427	-	1
<b>Children &amp; Adults (excl. DSG)</b>	<b>169,569</b>	<b>(1,122)</b>	<b>168,447</b>	<b>176,729</b>	<b>8,281</b>	<b>(2,553)</b>	<b>174,175</b>	<b>5,728</b>
Environment & Leisure	91,554	2,931	94,485	98,565	4,157	(1,281)	97,284	2,799
Housing & Modernisation	63,090	(7,654)	55,436	59,053	3,617	(656)	58,397	2,961
Chief Executive's	1,791	1,189	2,980	5,353	2,373	(681)	4,672	1,692
Finance & Governance	21,319	222	21,542	22,566	1,025	(127)	22,440	898
Strategic Finance	(13,669)	4,433	(9,236)	(9,236)	-	72	(9,163)	72
Support Cost Reallocations	(42,341)	-	(42,341)	(42,341)	-	-	(42,341)	-
Contingency	4,000	-	4,000	4,000	-	-	4,000	-
Contribution from Reserves	(2,078)	-	(2,078)	(2,078)	-	-	(2,078)	-
<b>Total General Fund</b>	<b>293,236</b>	<b>-</b>	<b>293,236</b>	<b>312,612</b>	<b>19,376</b>	<b>(5,226)</b>	<b>307,386</b>	<b>14,150</b>
<i>Of which, unbudgeted pressures:</i>								
Pay Award: Social Care						(1,556)	(1,556)	(1,556)
Pay Award: Other Services						(4,509)	(4,509)	(4,509)
Backdated Overtime Payments						(936)	(936)	(936)
Energy price inflation						(1,000)	(1,000)	(1,000)
<b>Outturn Forecast</b>	<b>293,236</b>	<b>-</b>	<b>293,236</b>	<b>312,612</b>	<b>19,376</b>	<b>(13,227)</b>	<b>299,385</b>	<b>6,149</b>
DSG Overspend	-	-	-	2,991	2,991	-	2,991	2,991

Our discussions with the senior Finance team have indicated that they are confident this overspend will be managed by year end as it is their view that much of it is driven by overly pessimistic spend forecasts. We recognise that in line with Councils across the UK, the economic and inflationary pressures exceeded what could reasonably have been projected when the budget was set in February 2022, and the subsequent overspending that has had to be managed is not an indication of a weakness in financial planning arrangements. The fact that the Council expects to be able to cover the overspend with reserves and other measures and set a balanced budget for 2023/34 is indicative of robust financial management arrangements. The Council will need to continue to adapt and strengthen its financial planning processes to address the heightened level of financial challenge expected to persist over the medium term. There are issues with the DSG which we deal with in the "Improving economy, efficiency and effectiveness" section of this report

## Managing financial risks

The Council manages risk through its Corporate Risk Strategy and the Audit and Risk Assurance Committee provides oversight of the process. Service directors undertake an Equality Impact Assessment on all identified service changes and policy amendments.

## Capital investment

In 2021/22 we note that overall, the Council total expenditure in 2021-22 was £97m against a programmed spend of £109m. In the context of delivering under difficult economic conditions, this reflects reasonable performance.

The 2022/23 capital programme was agreed in February 2022. As at January 2023 after period 8 Forecast expenditure is £101m against a programmed spend of £120m.

The 2023/24 budget proposal includes a capital programme for 2023/24 of £149m of which £112m is forecast to be funded by borrowing. The ongoing implications for the revenue budget strategy are fully considered before any capital funding decisions are confirmed. Given the current pressures on costs being experienced in all sectors the Finance team have been carrying out an extensive review of the capital programme with a detailed review of each of the 360 projects. These are being assessed against a set of criteria established by members and the plan is to report on these in July 2023 with a view to significantly reducing the cost of the programme moving forwards while at the same time ensuring priority projects are maintained.

## Borrowing Position

The Council's borrowing position in its latest Treasury Management strategy (presented to Cabinet in Feb 2022) is shown in the table overleaf in terms of the Council's Capital Financing Requirement (CFR). This is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.

# Financial sustainability

## Borrowing Position (continued)

	2020-21 Actual £m	2021-22 Forecast £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
General Fund CFR	699	728	835	872	875
HRA CFR	521	621	964	1,138	1,242
<b>Total CFR</b>	<b>1,220</b>	<b>1,349</b>	<b>1,799</b>	<b>2,010</b>	<b>2,117</b>
Less: Other debt liabilities*	-91	-86	-101	-96	-91
<b>Borrowing CFR</b>	<b>1,129</b>	<b>1,263</b>	<b>1,698</b>	<b>1,914</b>	<b>2,026</b>
Less: External Borrowing**	-891	-831	-708	-688	-667
<b>Internal Borrowing / (Over Borrowing)</b>	<b>238</b>	<b>432</b>	<b>990</b>	<b>1,226</b>	<b>1,359</b>
Less: Usable reserves	-343	-293	-263	-243	-223
Less: Working capital	-47	-47	-47	-47	-47
<b>(Investments)/New Borrowing</b>	<b>-152</b>	<b>92</b>	<b>680</b>	<b>936</b>	<b>1,089</b>
<b>Net Borrowing Requirement</b>	<b>-739</b>	<b>-923</b>	<b>-1,388</b>	<b>-1,624</b>	<b>-1,756</b>

## Pension Arrangements

The London Borough of Southwark Pension Fund (the Fund) is one of the largest Local Government Pension Scheme (LGPS) funds in London in terms of membership and assets. The LGPS provides for the occupational pensions of employees, other than teachers, police officers and fire fighters, of local authorities. It is a contributory defined benefit (DB) scheme established by the Superannuation Act 1972. We have reviewed the arrangements and are content that the council has properly assessed the risks.

## Conclusion on Financial Sustainability

The Council continues to operate in a financially and operationally challenging environment. Their financial planning both in the short and medium term is on a sound footing with a prudent assumptions being built into both. The signals are that the challenges will continue so the need for the structured and disciplined approach to managing finances and reserves which the Council has demonstrated will continue to be crucial. We regard the lack of financial projections for the medium term as a weakness of the Council and it will be helpful for the Council to start to publish their 3-5 year financial projections rather than only the next financial year as they have done to date.

Our audit of VfM in 2021/22 has highlighted concerns relating to the Asset Management Strategy (AMS) and the Quality Homes Improvement programme (QHIP) which underpins that strategy as well as the extent of stock condition information which we referenced in our 2020/21 Auditor's Annual Report. In particular, we are concerned that under current projections, the Council does not have access to sufficient funds to ensure the affordability of its capital programme impacting on the Housing Revenue Account (HRA) and does not have sufficient information on the condition of its housing stock.

We consider that the above observations constitute a significant weakness in terms of the financial sustainability of the capital and revenue aspects of the housing service operated through the Council's Housing Revenue Account.

# Improvement recommendations



## Financial sustainability

### Recommendation 1

We recommend that a comprehensive MTFS projection is included either in the Policy and Resources Strategy paper that accompanies the budget in the February report to Cabinet, or in the Medium-Term Financial Strategy document. This should outline the base case financial projection over a 3–5-year horizon and the key funding and cost assumptions. It should also demonstrate how longer-term efficiency programmes can contribute to reducing projected deficits in future years. And the extent to which the risk can be mitigated through reserves and other measures

### Why/impact

We understand the Council's view that the current the current level of uncertainty makes it very difficult to plan beyond the next financial year, however this is out of step with generally accepted practice. The risk is that this reduces the visibility of the Council's strategy for managing finances in the medium term and hence the opportunity for scrutiny by members and the public.

### Auditor judgement

This is an issue of presentation and transparency, as we can see that the Council does use scenarios to help plan its financial position. This is therefore an improvement recommendation and does not reflect a significant weakness.

### Summary findings

We note that although the Council clearly uses medium term financial analysis to feed into the annual budget setting process, the published Medium Term Financial Strategy document provides a financial policy narrative, rather than a clear high level financial plan for the medium term.

### Management comment

The Council is working towards a 3-year budget plan with a financial strategy due to be considered by Assembly in Autumn 2023. The final budget presented to Assembly in February 2024 will include three-year projections including longer-term growth and savings options.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



## Financial sustainability

### Recommendation 2

The Council should work pro-actively to build reserves in line with a robust assessment of risk over the medium term to strengthen financial sustainability beyond 2023/24.

### Why/impact

While the Council's reserves position is currently adequate, future pressures indicate that they could come under significant pressure and need to be built-up in line with an effective risk assessment to ensure continuing financial resilience.

### Auditor judgement

Improvement recommendation

### Summary findings

The Council is aware that reserves used up in managing funding shortfalls over the next 3 years will need to be built back up so they can retain that financial resilience. The savings identified as part of the MTFS in 2022/23 are in the main recurrent savings so will contribute to closing the longer-term management of funding gaps. However, the pressures in the next 3 years are significant so the Council does need to develop plans to rebuild those reserves back such that they are in a position to be able to manage any future financial challenges.

### Management Comments

The Council considers its current risk holdings adequate and during each strategy review will re-assess the required level of reserves to ensure it supports the Council's spending plans.



The range of recommendations that external auditors can make is explained in Appendix C



# Governance



## We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

## Leadership and Committee effectiveness

The Council continues to operate a Leader and Cabinet form of executive arrangements. The Cabinet comprises a senior group of Councillors which work in a similar way to the government's Cabinet, and headed by the leader who is elected by Council assembly for a four year term.

The Council's Constitution governs the work of the Committees. This is reviewed and updated on an annual basis and made publicly available too. Furthermore, the Annual Governance Statement (AGS) is also available and sets out the operation of the Council as well as decision making and policies. This allows for efficiency, transparency and accountability.

Policies are in place and regulated to ensure compliant behaviours and maintain an appropriate culture. An example is the 'Fairer Future Anti-fraud, bribery and corruption strategy.' This defines the act of fraud, provides examples of key fraud risks, core objectives and how the Council fights fraud.

## Monitoring and assessing risk

The Council have a corporate risk register in place which is used to identify, record and rate their risks. This register is prepared following a joint assessment of all departmental risks. These risks are then rated from 'low' to 'high' and also categorised into the following categories:

Economic  
Financial  
Reputational  
Staffing Culture  
Operational  
Legal Regulatory

The Audit, Governance and Standards committee annually report on the Council's key risk register. The key corporate risks were last reported to the committee in January 2022.

On 6th February 2023 the report provided an annual update and summarised the corporate risk management and insurance arrangements and reports on details of the Council's risk profile and risk categories.

Risks are monitored and reported appropriately through the performance review and challenge process which includes a quarterly review of key risks by each Cabinet member within their own portfolio. Chief Officers also monitor and review key Council risks on a regular basis. Corporate risks are reported to the Audit, Governance and Standards committee annually.

## Internal Audit

The Council have an outsourced Internal Audit function which is performed by BDO LLP. Moderate Assurance was provided by BDO who commented 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 2019-20 and 2020-21. The main reason for the Moderate assurance is the ongoing impact of COVID-19, increased demands on services and funding challenges faced but this has been considered to be a positive result in the light of these facts. IAU noted that the relative proportion of substantial assurance opinions provided for the design of the Council's controls had actually improved from 24% in 2020-21 to 38% and for operational effectiveness of the controls, it had improved from 6% in 2020-21 to 15% in 2021-22.

The areas of limited assurance relate to Adoption services, member protocols, Major works, asset management and IT disaster recovery. In all cases remedial actions are in place

## Senior Leadership Transition and Succession Planning

The Council are currently in a period of transition with the arrival of the new CEO in May 2022 and the retirement of the Strategic Director of Finance (DoF) and Governance in April 2023. Such transitional periods can be difficult to navigate and keeping a corporate grip is more challenging. We have no doubts that the senior leadership understand this but the loss of corporate knowledge of two such senior management positions inevitably puts pressure on the Council.

# Governance

The Council has not changed its risk profile significantly, however they are, like many other Councils, working through how to continue to deliver what they want within an inflationary period with increased regulatory pressure to address weaknesses, especially in Housing. Equally that pressure could be in Childrens or Adults Social Care. Strong governance, in particular around risk appetite in a new more challenging economic environment will need to be enforced in order to successfully address these challenges.

## Budget Setting

The Council have a new Medium Term Financial Strategy in place, known as the 'Fairer Futures Medium Term Financial Strategy' and covers 2022/23-2026/27. This new strategy informs the budget setting process and includes key budget principles. Note this strategy is not the MTFS but rather a statement of the principles which will guide the MTFS. As we have referenced in the "Financial Sustainability" section of this report the MTFS however does **not** include figures or numbers, which we consider to be a pivotal part of the MTFS. As we did in our 2020/21 VfM report we recommend that the MTFS is updated to include financial projections over a 3-5 year time horizon. Though the outgoing S151 has disagreed with this approach due to the significant uncertainty around government funding beyond a one-year window the Head of Finance has confirmed to us in discussions that this is the plan for the 2024/25 financial planning round.

During the year 2021/22, the Council improved their budget setting process with wider engagement, to ensure that alternative proposals and scenarios are considered before the final budget is presented to Cabinet. Through planned engagement work on the refresh of the Corporate Plan, members and other stakeholders were asked to consider a wide range of options around budget savings. The Council has also performed an extensive consultation exercise, and the outcomes from a series of stakeholder workshops fed into the budget and savings proposals.

## Budgetary Control

The finance team engage with budget holders regularly and budget monitoring reports are reviewed by Cabinet at quarterly intervals. The monitoring reports are then considered by the Overview and Scrutiny Committee and any variances and recommendations are then incorporated into the final report. Each Departmental Finance Manager reports by exception to their Service Director and then to the Strategic Director of Finance and Governance

As part of the initial budget scrutiny for the Policy and Resources Strategy, any information concerning the Council's latest position is submitted by the Cabinet Member for Finance and Resources and the Strategic Director of Finance and Governance. All strategic directors are responsible for delivering their services within budget and departmental managers provide support to address any budget pressures. This helps ensure effective accountability when delivering budgets and shows that financial performance is a key objective for senior managers and budget holders. Departmental managers are expected to have a strong understanding of their budget and how it fits within the wider context and budget of the Council. They are expected to provide reasons for any outturn variance in their department's budget and should identify any additional budget pressures and how they will mitigate against them

## Governance – Overall conclusion

The Council has made significant improvement to address recommendations from our VfM report of 2020/2021, strengthening financial and governance arrangements. As recommended in the Financial Sustainability section of this report this would be strengthened further if the MTFS included financial projections over a 3-5 year timescale to allow a better understanding of the longer term financial position of the Council.

# Improving economy, efficiency and effectiveness



## We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives

## Financial and performance information

The Council's performance monitoring regime is built around the two key Council plans, the Borough Plan (or Delivery plan 2022-26 as it is now named) and the Southwark 20230 vision document. The Council monitors its performance against the objectives and milestones contained within these documents and does this via a monitoring regime comprising the Performance Challenge Board which monitors corporate performance on a regular basis. Departmental data is collated and reviewed on a quarterly basis. The performance framework has been changed during the latter half of 2022 with more focus now being centred on priority areas in the plans rather than routine monitoring of all areas on a cyclical basis.

A stronger focus on officers preparing for the performance challenge sessions means that members are having more time to focus on addressing key issues which should lead to better outcomes in due course. It is early days for the new performance regime and this will need to be kept under review.

Performance data is in the main managed by individual departments and the Council is in the early stages of specifying requirements for a data system that will allow performance data to be standardised and collated more easily thus allowing for better analysis. There is a reliance currently placed on departments to ensure the reliability and accuracy of the data they are supplying. Where there are statutory requirements eg Childrens and Adult Social Care this is more likely to be reliable but other services are less so. We note the appointment of the Head of Policy, Partnerships and Performance (started in Feb 23) and we would encourage the Council to expedite the process of developing the data system requirement.

The Council has purchased access to the GT CFOi benchmarking tool and this is used in the area of Finance. We encourage the use of the tool to inform the work of the performance monitoring team in the newly established Strategy and Communities department which has oversight of performance monitoring for the Council.

## Service evaluation

The Council has insourced a number of its services and only a limited number remain outsourced e.g. waste and shared ICT service which reduces the overall exposure to risk from reliance on third parties. These services are performance managed within the directorates, and performance issues are reported to Cabinet by exception. Indeed in our discussions with the Director of Social Care, he highlighted the very positive impact the ICT team had had on his service. The Leisure service is currently being insourced and will start operating on 21 June 2023.

## Dedicated Schools Grant (DSG)

In 2022, the government's local government finance policy statement announced that the statutory override for the Dedicated Schools Grant (DSG) would be extended for the next three years from 2023-24 to 2025-26. The statutory override means that any DSG deficits do not need to be included in the Council's main revenue budgets. The statutory override only provides temporary relief for Councils to manage their DSG deficits. When the statutory override expires, Councils will be expected to cover the cost of their DSG deficits themselves. This would likely have to be met from un-ringfenced general reserves. The risk arises when many Councils consider that their general reserves balance may be close to or less than the amount required to fund their DSG deficit. Many Councils have become dependent on the statutory override to continue as a going concern. With the statutory override expiring in 2025/26, there is intense pressure for Councils to devise a plan to manage the DSG deficit to mitigate the risk of funding the deficit from reserves and risk fully depleting the general reserves balance.

The Council has recently agreed with the Department for Education (DfE) a funding settlement to clear the deficit in the DSG. The total funding of £21m is based on the Council undertaking actions to manage the in-year financial position of the DSG and is paid via the "Safety Valve" scheme DfE has put in place to support Councils whose DSG are in significant deficit.

# Improving economy, efficiency and effectiveness

## Service evaluation (continued)

The funding is to be paid over 5 years (first tranche of £9m was received in March 2023 with years 2 to 4 at £2.5m per annum and year 5 at £5m). The Council will be subject to a triannual review by DfE inspectors and will be expected to break even by year 4 of the 5-year agreement. The agreement also includes £3m Capital funding which has been very helpful in helping set up support infrastructure ie. a resource base and the mainstream school for children with disabilities. A Savings plan is now in place and governance arrangements have been established via the Budget Review Board (BRB). Two strategic directors - ASC/CSC and S151 are on BRB. Additionally external independent assurance is provided by RSM. Additional resources are now being recruited with a recent internal appointment made. ***This is a very challenging programme of work and will require real focus, drive and determination from the service. The Council senior management team needs to give the programme the priority it requires.***

The Council will be expected, by 2025-26, to migrate its DSG balances on to its Balance Sheet, as the current governance statutory override of this requirement elapses in that year. It will be critical at that point for the Council to be able to demonstrate good progress in delivering the DSG savings plans and also to have in place sufficient Reserves to cover the deficit if plans are not on track.

## Social Care

The Council has made great strides in Social Care and the service continues to deliver good outcomes for both Adults and Children of the Borough. The service has a £460m gross spend and though it has overspent by £5m in 2022/23 this has been mitigated by £23m of Reserves which the Department retains to deal with spend issues. Previously the service had been £19m in deficit so turning this into £23m reserves has been an excellent performance in last 5-7 years. Pressures on the service continue to be around IT and Social Care systems as well as some issues losing staff to the NHS ICS. But the service has a very strong grasp on contracts management though in some instances the Council has had to pay higher than inflation contract prices and make pay awards above inflation. Recruitment has not been as much an issue for Southwark as they have taken the decision to pay London Living Wage and via their ethical charter have ensured that staff are also paid for travel time and training. This means that staff retention is high and recruitment issues reduced. In addition their strategy has been to target international recruits and they have secured these on 5 year visas which means they are committed to working for the Council for 5 years.

## Service evaluation (continued)

This has given workforce some stability. There have been problems in recruitment and retention of Occupational Therapists (OTs) but to attract them they have created a new role Head of OT, so this can be an incentive for OTs who will get mentoring and support as well as potential career path. Generally in terms of recruitment and retention the policy of paying living wage, travel time and training has led to good retention and loyalty rates. The Southwark supplement is paid to guarantee good pay rates and the Council has found that this has led to a lot higher proportion of men working in Homecare sector as they are guaranteed a good living wage

## Partnership Working

The Council reviews its partnership working on a regular basis and has in the past year taken the decision to insource leisure services (as reported in the section above). The service commences on 21 June 2023 with Everyone Active/SLM ceasing their service provision on 20 June. The Council continues to work collaboratively with other London Councils in the Adopt South London partnership (a 10-Council partnership) which has been at the forefront of leading VFM work across the region moving from a funding approach based on historic spend to a demand based funding model based on use while enabling Councils to, as best as possible, anticipate demand and manage fluctuations

The Council continues to be part of the Commissioning Alliance, a Dynamic Purchasing Vehicle (DPV) with 14 Councils on the framework (incl. Southwark) in two specific areas for Children's Residential Care and Independent Fostering Agencies. The Alliance utilises its buying powers to drive improved quality and costs for local authorities.

## Procurement, Commissioning and Contract Management

In 2020/21 we reported that the Council was in the process of developing its procurement function and the procurement strategy, the Fairer Future Procurement Framework (FFPF), had been developed over the past 6 years and now incorporates social value, climate change and Equality.

We note that the procurement function is devolved to departments and this is causing issues in terms of maintaining an up to date and complete Contracts Register as there is a lack of consistency in completion of the register. The procurement team are unable to give us an assurance that the register is complete and accurate.

# Improving economy, efficiency and effectiveness

## Procurement, Commissioning and Contract Management (continued)

It is also proving difficult to ensure consistency of practice across departments though we note that the Procurement training and a Contract Management toolkit has now been rolled out across departments. The team has also highlighted the lack of any central resource or software to support reporting of Contract Management in general. This hinders the ability to plan for a pipeline development of an efficient and effective procurement service as there is no central repository for the planning, procurement and contracts management information that the Council can use to support the function and confirm delivery of best value for money.

Additionally, and crucially new legislation governing procurement is expected to become live in early 2024 and this will amend the regulations that govern procurement in the public sector so the Council needs to adapt to ensure it can be compliant. We note that the Procurement Team took a paper to the Corporate management Team (CMT) in early March highlighting these changes and the required transformation of procurement at Southwark. The report highlights that:

*“the lack of a centralised structure around procurement or the reporting of contract information and planning is a key risk to the Council both in terms of ensuring compliance with the requirements of the Procurement Act but also in achieving consistency of reporting and delivery information on the outcomes of the Council’s expenditure with third party organisations”.*

We echo these concerns.

The report also notes that the Childrens and Adults Commissioning service had recently developed an outline business case for a system to store and manage contracts. It recommended that this be paused until a more holistic solution for the whole of the Council can be developed. Again, we support this recommendation

There is clearly much work to do at the Council to develop a fit for purpose, efficient and effective procurement service, incorporating Contract Management. It appears the current service is disaggregated, and it is not clear that the current structure facilitates the achievement of best value for money from procurement activity. The lack of a complete and accurate Contracts register is a red flag as is the distributed nature of the service and the lack of central resources to be able to properly coordinate, control and monitor procurement activity. We note the recent report taken to the senior management team highlighting the issues raised by the impending Government legislation. Given the requirements of this new legislation we regard this as high priority for the Council to address the procurement service moving forward.

## Procurement, Commissioning and Contract Management (continued)

**Improvement recommendation:** The Council should prioritise the review of the procurement service to ensure it is fit for purpose and ready for the implementation of new procurement legislation in early 2024 with a particular focus on ensuring the Contracts Register is up to date and that procurement practice and processes are consistent across all services where procurement is devolved

In terms of the number of tender waivers the Council have a gateway process which ensures any direct awards must go through both their Directorate Contracts Review Boards (DCRB) and their Corporate Contracts Review Board (CCRB). There is not a Tender waiver form per se but each gateway 1 review includes confirmation of whether this is a direct award or not and it has the appropriate rationale associated with it. In terms of being able to log and report on tender waivers it would be beneficial for the Council to have an established process with the requisite documentation.

**Improvement recommendation.** The Council should consider reviewing its process for and its reporting of tender waivers with a view to introducing them as soon as is practicable

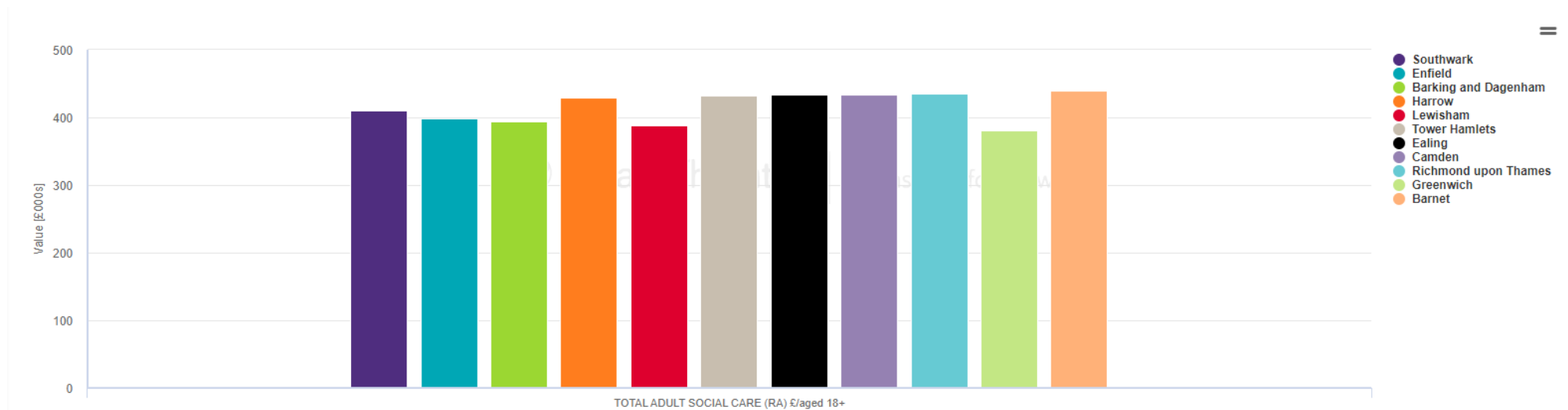


# Improving economy, efficiency and effectiveness

## Assessing Value for Money in the services

As part of our review we made use of the Grant Thornton data analytics platform CFO Insights to benchmark Southwark Council against other local authorities in relation to spend per head of 18+ population. This used the most recent available data (2022/23 RA Return). This compared the Council's submitted budget data for 2022/23 to other similar Councils. The results of this indicated that the Council were not an outlier for high spend for any service area.

We note that in our previous Auditors Annual Report for 2020/21, we reported that Southwark benchmarked very high for Adult Social Care, but in the more recent 2022/23 budget data, while still comparatively high, the Council was in line with other comparable Councils.



# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 3

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.

## Why/impact

The responsibility for the Council's procurement function is disaggregated which makes control and monitoring difficult. This has led to inconsistency of practice with a Contracts Register that is incomplete and potentially inaccurate. New Government legislation regarding procurement regulations is putting pressure on procurement teams to ensure they have centralised records and can monitor and control procurements and contracts and report on these to government and publish Contract Management for contracts over £5m in value.

## Auditor judgement

Improvement recommendation

## Summary findings

The Council's procurement service including contract management needs to adapt to new government legislation and develop a more centralised approach and reporting functionality.

## Management Comments

A review of the structure, resources and nature of the procurement function, including systems is planned to be carried out in relation to procurement and contract management, in part in response to the risks and opportunities including those presented by the Procurement Act that will aim to address the areas of concern raised in this recommendation.



The range of recommendations that external auditors can make is explained in Appendix C.

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 4

The Council should consider reviewing its process for and its reporting of tender waivers with a view to introducing them as soon as is practicable

## Why/impact

The management of tender waivers is a key KPI in terms of the efficiency and effectiveness of a procurement service and acts as an important control in the overall procurement function as it ensures that procurements are properly challenged

## Auditor judgement

Improvement recommendation

## Summary findings

The Council does not have a formalised tender waiver process, nor does it routinely report tender waivers. This is an important control in the procurement process so should be introduced as soon as is practicable

## Management Comments

A review of the potential framework that the council will create to address the risks presented in relation to the waivers and the associated processes and thresholds will be carried out.



The range of recommendations that external auditors can make is explained in Appendix C.

# Follow-up of Prior year Improvement recommendations (AAR)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?	
1	We recommend that a comprehensive exercise is undertaken to improve the quality of stock condition survey data. If all team members visiting homes are involved in validating existing records and updating stock condition data, this will give rise to a sense of ownership and increase confidence in the stock condition survey data amongst team members. This needs to be supported by appropriate technology.	Improvement	July 2022	We will be undertaking a comprehensive stock condition programme. We have approval to conduct some pilots for this starting in April/May 2023. The rest of the programme will begin as soon as possible after that, but is dependent on procurement. For officers going to homes, the Council is looking at an HHSRS training programme. The Strategic Director for Housing has agreed with the need for this programme and each relevant service has been asked to organise appropriate training for their officers. We are also reviewing the use of mobile devices to support this – this will allow officers to report on hazards and other relevant stock data.	In-progress	N/A
2	We recommend that resources are put in place to ensure that stock condition survey data is kept up to date. If all team members visiting homes are involved in validating existing records and updating stock condition data this will give rise to a sense of ownership and increase confidence in the stock condition survey data amongst team members. This needs to be supported by appropriate technology.	Improvement	July 2022	Staffing and expertise in place, Stock condition 5 year rolling programme was presented and approved within the budget challenge. Pilot scheme commencing to ensure key information captured and uploaded to database to deliver accurate Asset Programmes.	In-progress	N/A

# Follow-up of Prior year Improvement recommendations (AAR)

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
3	We recommend that a review is carried out to ascertain whether Southwark is achieving value for money from relying on a single contractor for the delivery of its main repairs and maintenance contract. We recommend that the client carries out an annual performance review of the DLO as would be the case for external contractors.	Improvement	July 2022	<p>The Council's Cabinet made a decision to insource internal building repairs to Southwark building services (SBS), part of traded services within the environment &amp; leisure department with effect from October 2018, mutually ending its relationship Mears. At the same time it separately tendered two contracts for roofing works, one for metal works and two for communal repairs; that is, all repairs with a potential recharge to leaseholders. SBS was awarded one of the communal repairs contract areas and another DL within traded services was awarded the metal works.</p> <p>The Cabinet reviewed its decision to insource communal repairs the following year and reconfirmed that the arrangement would continue. In April 2020 SBS was moved into the repairs service within housing and the client and contractor relationship was dissolved. The service is an integral part of housing delivery and there is no client. Instead the service is subject to a rigorous improvement plan which includes a focus on improving productivity, reducing duplication and making it fit for the future and delivering works at a reasonable cost. This plan is not yet complete. The communal repairs element and metal work are subject to annual performance review and communal repairs is being retendered. The repairs service will not be bidding for this work.</p>	Yes	N/A
4	<p>We recommend that consideration is given to our observations in terms of how individual fire risk assessment reports might be improved further:</p> <ul style="list-style-type: none"> <li>• Inclusion of an executive summary containing certain standard information.</li> <li>• Consideration should be given to setting a target FRA rating for each block, the cost and other resources required to increase the rating to target (and intermediate status if applicable) should be identified where possible.</li> <li>• A brief commentary on actions outstanding from previous inspection, by exception.</li> </ul>	Improvement	July 2022	<p>The inclusion of an executive summary containing certain standard information has been designed in the new FRA template.</p> <p>We have moved from a 5x5 building risk rating matrix to 4x4 and intend to move to a 3x3 in 2023. Where any building has a rating at the highest of the current 4 (Substantial) a new process is in place to reduce this via a priority programme of works or consider a change of strategy – whichever is right for the block and the original fire strategy. After moving to a 3x3 we will seek to vary the process to ensure recommendations are included to reduce a building risk rating from high to medium and medium to low on a similar basis.</p> <p>The new template reflects previous tasks and their status and we have reinforced the superseded existing actions within the new template</p>	Yes	N/A



# Follow-up of Prior year Improvement recommendations (AAR)

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5	We recommend that an electronic file of consolidated development cashflows from the new PAMWIN system is uploaded to the cashflow module of the finance system on a monthly basis as part of the regular period end routine.	Improvement	July 2022	This recommendation has been implemented in full.	Yes	N/A
6	We recommend that when new build properties are ready to be handed over to housing management to be let, that a process is put in place to ensure that the stock condition survey is updated to include the new units. Individual component lives should be noted, ideally with the current costs of replacement.	Improvement	July 2022	<p>The review of the handover process in currently underway, led by Southwark Construction, and is in consultation with a number of internal stakeholders within the Council and leads within Southwark Construction. One of the main aims is to ensure we have processes in place for when the scheme is at PC and the end of defects period and embed a process to ensure that all relevant stakeholders are aware of the stage the scheme has reached which will then also trigger their own processes.</p> <p>Currently the O&amp;M manuals are managed by the CDM Compliance team who ensures that the document is saved in a consistent format but we also understand from the Building Safety Team that they are reviewing how this information is saved into a Southwark system. The meetings we have booked in the next two weeks with all stakeholders will help clarify this.</p> <p>Asset information is stored within the Apex asset management system which sets costs and life cycle per component and this is routinely refreshed to provide accurate maintenance repair / replacement cycles together with interim maintenance schedules</p>	In-progress	N/A

# Follow-up of Prior year Improvement recommendations (AAR)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
7 We recommend that a high level MTFS projection is included either in the Policy and Resources Strategy paper that accompanies the budget in the February report to Cabinet, or in the Medium Term Financial Strategy document. This should outline the base case financial projection over a 3-5 year horizon and the key funding and cost assumptions. It should also demonstrate how longer term efficiency programmes can contribute to reducing projected deficits in future years. And the extent to which the risk can be mitigated through reserves and other measures.	Improvement	July 2022	This recommendation is still to be implemented .	No	To be addressed for next MTFS
8 The Council should closely monitor progress in delivering a sustainable plan for reducing the DCG deficit.	Improvement	July 2022	Deficit still in place but plan for managing it agreed with central government	Yes	N/A

# Follow-up of Prior year Improvement recommendations (AAR)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
9 The Council should develop sufficient headroom in its savings and efficiency plans to eliminate the need to use reserves to balance the budget and plans to replenish reserves used to balance the budget in 2021/22 and 2022/23 should be implemented with progress to be closely monitored by members.	Improvement	July 2022	This recommendation has been implemented in full.	Yes	N/A
10 The Council should continue to develop its procurement toolkit for managers and in particular develop a way of centrally reporting on value for money gained via its contracts. Via its contracts register	Improvement	July 2022		Yes	N/A

# Appendices

# Appendix A – Responsibilities of the Council

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

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

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

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

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

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





# Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. In our 2021/22 Audit Plan (dated 18 Jul 2022) we did not identify any areas of significant VfM risk at that stage. However, during our fieldwork we did identify a significant weakness in regard to Financial Sustainability, relating to the affordability of the housing capital programme:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability - no significant weaknesses identified	We used our in-house Housing advisory experts to review the key documents and interview key officers to understand the extent of the issues faced by the Council.	We confirmed that weaknesses in the arrangements to manage the housing capital programme gave rise to a Significant Weakness in the Council's arrangements to secure Value for Money.	We have raised 4 key recommendations (see paged 7 and 8 of this report) which the Council must urgently address.
Governance - no significant weaknesses identified	N/A	N/A	N/A
Improving economy, efficiency and effectiveness - no significant weaknesses identified	N/A	N/A	N/A

# Appendix C – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	Yes	No Statutory recommendations raised in this report
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	Yes	Pages 7,8,9
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	Pages 17,18,25,26

# Appendix D – Sources of evidence



## Staff involved

- Duncan Whitfield - Director of Finance/S151 officer
- Tim Jones- Head of Finance
- David Quirke-Thornton – Director of Adult Social Care
- Doreen Forrester-Brown – Monitoring Officer
- Elaine McLeester – Interim Head of Procurement
- Stephen Gaskell- Assistant CEO Strategy and Communities
- Tricia Boahene – Head of Policy, Partnerships and Performance
- Amarjit Uppal – Finance manager



## Documents Reviewed

- 1. Southwark\_MBC\_Draft General Fund Budget 2022-23\_Feb\_2022
- 2. Southwark\_MBC\_Appendix A Spend pressures summary\_2022-23\_Budget\_Feb\_2022
- 3. Southwark\_MBC\_Appendix B Draft General Fund Budget 2022-23\_Feb\_2022
- 4. Southwark\_MBC\_Budget Report\_&-MTFS (p79) and Appendices 16 November 2022
- 5. Southwark\_MBC\_2021-22 Financial Outturn
- 6. Southwark\_MBC\_2021-22 Financial Outturn\_Appendix A
- 7. Southwark\_MBC\_Q3 Budget Monitoring 2021-22
- 8. Southwark\_MBC\_Q3 Budget Monitoring 2021-22\_Appendix\_A
- 9. Southwark\_MBC\_Q3 Budget Monitoring 2021-22 Consolidated Appendices Q3 V2
- 10. Southwark\_MBC\_Appendix 8 - Treasury Management Report 2021-22
- 11. Southwark\_Corporate\_Plan\_2021\_Final
- 12. Southwark\_MBC\_Performance Framework\_Q1\_2022-23
- 13. Performance Management Framework for the Council\_April\_2022
- 14. PMF\_Appendix 1-3 Organisational Health Customer Experience and Finance Contracts Measures
- 15. Southwark MBC VfM Governance Review Follow Final for issue 021222
- 16. Southwark MBC Governance Review - FINAL 031221 for client issue
- 17. Southwark\_MBC\_Performance Management Framework - Q2\_2022-23\_Monitoring



## Documents Reviewed (continued)

- 18. Southwark\_MBC\_Strategic Risk Register Update Report\_June\_2022\_ARAC
- 19. Southwark\_MBC\_Appendix 1 Strategic risk register summary as at June 2022
- 20. Southwark\_MBC\_TMSS Mid Year Review 2022-23 Cabinet 18.01.2023
- 21. Southwark\_MBC\_TMSS Mid Year Review 2022-23 Cabinet (Appendix A)
- 22. Southwark\_MBC\_TMSS Mid Year Review 2022-23 Cabinet (Appendix B)
- 23. Southwark\_MBC\_TMSS Mid Year Review 2022-23 Cabinet (Appendix C)
- 24. Southwark MBC - CIPFA FM Model Review Follow Up Review - Final Report Jan 23
- 25. SMBC Workforce Strategy - outline for LT 24.01.23
- 26. Statement\_of\_Accounts\_2020\_21\_\_\_Draft
- 27. Part Officers Code of Conduct Officers Gifts and Hospitality revised 2018
- 28. Procurement - follow up documentation.zip
- 29. Elected Members Training Session – Fraud
- 30. Appendix A - School Fraud Awareness Bulletin
- 31. Cabinet Meetings Minutes
- 32. Council Cabinet Report- Insourcing of Leisure Services
- 33. Leisure Service Governance Structure
- 34. List of Investment Properties
- 35. Audit Team Comments
- 36. Statement of Accounts- Formal Objection