Auditor's Annual Report on Southwark Council

2022/23

September 2024

FINAL

This report includes the findings from our review of an objection raised in 2021-22. We have not reissued the 2021-22 Auditor's Annual Report but have noted the impact of its findings on our 2021-22 conclusion in this report.

Contents

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

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

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

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Executive summary

Value for money arrangements and key recommendation(s)

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

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2022/23 is the third year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements	2021/22 Auditor judgement on arrangements	Direction of travel
Financial sustainability	Risk identified because of challenges to the affordability of the housing capital programmes.	Significant weakness in arrangements identified and one improvement recommendation has been 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. One improvement recommendation made.	One significant weaknesses in arrangements identified relating to the Council's arrangements for funding and monitoring housing Tenant Management Organisations.	↓
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified. Two improvement recommendations made (brought forward from 2021/22)	No significant weaknesses in arrangements identified but improvement recommendations made	↔

Executive summary (continued)

Financial Sustainability

The Council has a track record of managing its finances effectively and in spite of what has been a turbulent period in public sector finances due to the Covid-19 pandemic, the war in Ukraine and the cost-of-living crisis **and outside of the challenges it has had with its HRA where the financial challenges have been significant and where we have identified a significant weakness in last year's report which the council is now addressing (see later in the Exec summary)**, the Council has maintained control of its finances. We note the financial challenges ahead are significant, especially in the latter years of the Medium-Term Financial Strategy (MTFS) to the end of 2026/27. However, early indications and the forecast position for 2023/24 indicate that the Council is managing that uncertainty well. The MTFS identifies savings requirements of £10m still to achieve over the period to end 2026/27 but the combination of prudent assumptions in the MTFS plus a developing transformation programme give confidence that the council will be able to meet the savings targets. Added to this, the Council has been prudent in its management and use of reserves which are at generally accepted recommended levels.

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. The exception to this was in relation to the significant weakness in the financial management of the capital programme in regard to housing which we have considered separately in this executive summary. We have not identified any further significant weaknesses or key recommendations. We have raised one improvement recommendation as a result of our review.

Note that we have addressed the key recommendations from the 2021-22 on pages 6 and 7 below.

Governance

During the year we have been responding to an objection from a member of the public, made under section 27 of the 2014 Local Audit and Accountability Act 2014, relating to the Council's arrangements for funding and monitoring the activities of a local Tenant management Organisation (TMO). The objector was concerned that: Council funding, earmarked to be spent on external decorations, of over £1.8 million during the period 2008 to 2022, had not been spent as intended; that the TMO had not kept appropriate financial records; and that the Council's monitoring arrangements over the period had been inadequate. We agreed that the Council's Internal Audit service would undertake enquiries regarding the matters raised and, following completion of their work in January 2024, we concluded that Internal Audit had fully addressed to our satisfaction all of the matters raised by the objector within the objection and that the concerns raised were valid and hence that the objector's concerns were upheld (see pages 17 and 21). We were satisfied that Internal Audit had demonstrated sufficient impartiality and challenge to the Council in concluding its work. The objector had requested that we issue a Report in the Public Interest, which was a relevant consideration, given Internal Audit's findings. However, in this instance we decided to apply our discretion not to produce such a report, as the Council had formally accepted all of Internal Audit's findings and had debated the matter fully and transparently, in public, in a meeting of the Council's Audit, Governance and Standards on 25 April 2024 . At that meeting, members had agreed a series of actions to address the matters raised and we consider that it will be important for the Council's new external auditor to monitor progress in this area and we will discuss with the new external auditor, appointed for 2023/24 onwards, the monitoring of those actions, taking into account our respective responsibilities under the Code of Audit Practice. Given the findings, we concluded that there had been a significant weakness in the Council's governance arrangements for the funding and monitoring of 3rd party activities and raised a key recommendation to that effect, as required by paragraph 3.14 of the 2020 Code of Audit Practice and paragraph 60 of AGN 03 and under section 27(6) of the Local Audit and Accountability Act 2014.

With a new permanent Chief Executive and statutory head of paid service in-situ since May 2022, the Council has been reorganising its senior management structure to realign the leadership to a refreshed Council Delivery Plan. Key changes include appointment of a new Strategic Director of Finance and Governance (s151 officer) in May 2023 and a replacement Housing Director in December 2023. These changes will support the way the Council tackles ongoing governance issues highlighted in the prior financial year which include the Council's ambitious housing programme, cyber security and a commitment to ensure Southwark is carbon neutral by 2030

The Centre for Governance and Scrutiny were invited in August 2022 to evaluate the scrutiny function of the Council, explore options, and make suggestions on how processes could be improved. Findings of the review are being considered for 2023/24 and it is encouraging that this reported in April 2023 that "scrutiny had a good foundation in Southwark." The Council is now addressing the 11 recommendations of the report.

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We note that the CEO has implemented a new leadership structure with 5 new Strategic Directors. This structure appears to be bedding in well and based on the findings of our review, we consider there to be appropriate tone from the top. We note that the composition of the Audit, Governance and Standards Committee is relatively new following recent elections. We have not identified any significant weaknesses and have not raised any key recommendations or improvement recommendations.

Executive summary (continued)

Improving economy, efficiency, and effectiveness

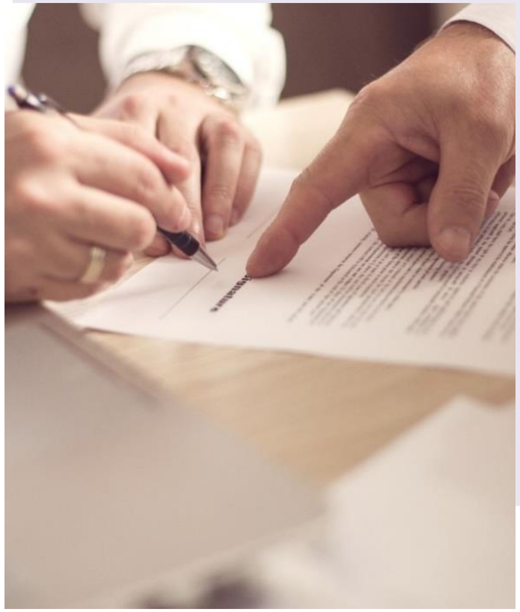
The Council has updated its performance management arrangements in the past year. We note that this work is in progress and the direction of travel is positive. As with all Councils, Housing presents financial challenges and the turbulence in the wider economy has impacted on costs for repairs and maintenance. That, allied to increased regulatory requirements, means the Housing service is under pressure as we have noted in our follow up to the 2021-22 key recommendations. The Council has recognised this and its new Housing Strategy underpinned with a revised HRA Business plan and Asset Management strategy means that the Council is responding positively to managing those pressures.

We note the relatively slow progress on our recommendations from the 2021-22 report for procurement and contract management arrangements but acknowledge that the final report was not presented until the January 2024 Audit, Governance and Standards Committee plus the new Chief Finance Officer needed time to assess the structure and functions of the Finance department. We are pleased to note that plans are in place for the procurement review to take place in the first half of 2024. Significant challenges in the Housing service that we reported on in the prior year, continue to be an area of focus for the Council but again we note that significant progress has been made in addressing these.

We have not identified any significant weaknesses and have not raised any key recommendations or improvement recommendations.

Financial Statements opinion

We have been working on both the 2021-22 and 2022-23 year audits and expect to issue unmodified opinions on these audits in April subject to the remaining items mentioned in the respective audit finding reports being concluded upon.



Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by Council officers, Council Members and external stakeholders with whom we have engaged during the course of our review.

Executive summary (Prior year Significant Weaknesses)

Key recommendations from 2021-22 Report – Follow up

Our 2021-22 annual audit report (presented January 2024) highlighted a number of significant weaknesses in relation to the Council's housing service. The concerns related to the Asset Management Strategy (AMS). The 2016 AMS identified a funding requirement (in 2015 terms) of £796.5 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 Quality Homes Improvement programme (QHIP). The AMS is now in the process of being updated as we note below. Our concerns also related to the completeness of up-to-date stock condition information which we referenced in our 2020/21 Auditor's Annual Report. In particular, we were concerned that under current projections, the Council did not have access to sufficient funds to ensure the affordability of its capital programme impacting on the Housing Revenue Account (HRA). This was 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. We made 4 key recommendations in the report and our 2022-23 audit has followed up with key senior Finance and Housing staff on how the Council has addressed these recommendations.

It is important to note that these issues came to our attention during our work on VfM for the financial year 2021/22 and continued to apply in 2022/23. This report primarily relates to financial year 2022/23 and therefore for that period, we consider it appropriate that the significant weaknesses previously identified and the corresponding key recommendations still apply to that year. However, we do note that progress has been made, particularly in the current year 2023/24 and we are pleased to recognise this in our commentary against each of the four key recommendations set out below.

Key recommendation 1: We recommended that the Council introduce 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.

The Council has just agreed a 2-year capital programme commencing April 2024 which in effect is a replacement for the QHIP programme. This includes decency standard and building safety requirements so will be up to date in terms of statutory requirements. The stock condition reset is starting imminently with the work currently out to tender. The expectation is that it will be complete within 18 to 24 months in time to inform a 3-5 year Asset plan from that point forwards. This will then be a 5-year rolling programme which will feed the Council's asset database. Contracts will be awarded through existing partnering contractors and the use of new contractors through updated frameworks. The Housing Recovery Board has been set up to ensure refreshed costs are aligned to the Council's budget to deliver the asset management programme. The outcome provided the 2 year capital programme to inform the Council's budget planning. There is also an annual review of costs with cost consultants to look at the inflationary pressure on the programme.

Key recommendation 2: We recommended 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 noted that the Council had 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.

The Council is working with cost consultants and partners to manage the programme within the Council's current budget. It has already made revisions to the original budget in the QHIP programme and we are satisfied that the current programme is based on a more realistic estimate of the costs. The Council acknowledges that there is further work to do to further strengthen the Council's understanding of projected costs. The financing of the programme will draw from the major repairs reserve (£50m), revenue contributions to capital outlay (RCCO - £20m) with the remainder to be funded from increased borrowing (c. £30m) together with the pausing of schemes within the new build programme providing savings in interest costs that would have impacted the revenue account. In the longer term, the intention is that the repayment of borrowing will be partially met by selling off surplus properties. The Council acknowledges that this will need to be closely monitored as it will be impacted by economic conditions and market values.

With reference to the SCS the Council has now received approval at Gateway 1 and can proceed to Gateway 2. Data collection is expected in the 18-24 month period to inform the future AMS. The current building safety programme is informing the Council of its stock condition but is limited to high rise blocks. The SCS will capture the traditional data on decency combined with building safety data.

Executive summary (Prior year Significant Weaknesses)

Key recommendations from 2021-22 Report – Follow up (continued)

Key recommendation 3: We recommended 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 Council has been working hard to update the stock condition survey data, taking into account the requirements of new legislation in areas such as fire safety and damp and mould. The refreshed data will ultimately help inform revisions to the asset management strategy. Although the government has been recommending 100% stock condition surveys this is likely to be beyond the capability of the Council to deliver in the short term and the focus is therefore on priority areas under the new regulations and in delivering sufficient coverage of stock to allow maintenance demands to be extrapolated with a reasonable degree of accuracy. The priority for the Council is the high-rise buildings as that is what the legislation specifically references. Low rise buildings will come after these have been surveyed in terms of priority. The Council has started its stock condition data collection for high rise building safety and that will be combined with other key elements of decent homes standards across the Council's housing stock. It is highly likely that this process will identify additional cost pressures and the Council is setting aside contingencies to mitigate this risk within the new funding solution.

The database to capture asset component information is Apex. The Apex system is deemed compliant and the quality of the data input is being managed by the Council. A new database is to be introduced called 'True Compliance' which will capture building safety, decency and compliance information and integrates with the housing management system. This will in time replace Apex.

Key recommendation 4: We recommended 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

Historically the Council has had a £50m budget reserve for housing stock which they have supplemented by the use of revenue contributions from the HRA. Now that budget has been increased to £100m+ to take account of the additional work likely to be required. This has been funded via borrowing which the Council is planning to pay back via capital receipts by selling off void properties. It is unusual for the Council to borrow for asset management rather than for new homes but it has been necessary and payback plans are in place so the borrowing is just to get the Council over the spike in activity they're seeing at the moment arising from building safety and fire safety regulations with the plan to return back to a slightly more sustainable budget as soon as possible.

Conclusion

In summary, having discussed progress against each of our four key recommendations from 2021-22 we are pleased to note that the Council has made good progress in addressing all the issues. The imminent start of the stock condition survey which is expected to take up to 18-24 months is welcome as this will ultimately provide the necessary data to both update the Council's asset management system and at the same time feed into the 3-5 year asset strategy. It is clear the Council is taking the recommendations seriously and putting in the required effort to rectify its stock condition data and build a credible asset strategy and this is to be commended. As 2022/23 represents the last year of our appointment as auditors to the Council it will be a matter for your new auditor to consider the status of these issues and the full implementation of the key recommendations in their assessment of VfM in 2023/24. Council is aware of long time frame but as they are looking at high priority areas first they hope to mitigate highest areas of risk early in the process (eg fire safety) and then to expedite the remainder of the programme to bring forward that time frame.

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

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

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 the Council's arrangements in each of these three areas, is set out on pages 9 to 26.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit, Governance and Standards Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications

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
- 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.

In 2022/23, the Council was still recovering from the financial effects of the pandemic as funding from the Government to meet additional costs wound down. However, there were additional financial pressures on the budget from issues such as rising energy costs, inflation, interest rates, Brexit and supply chain issues. The Council therefore faced a difficult economic backdrop against which it had to make spending and funding decisions to ensure future financial sustainability.

Financial Outturn 2022-23

London Borough of Southwark (LBS) Council has historically performed well in managing its finances, with a track record, outside of the Housinig service and Housing revenue account (HRA) which has had its own set of unique challenges, of strong financial and budgetary management despite the challenging environment in which it is operating. The Council achieved a surplus of £15.6m before transfers to Reserves in 2022/23.

The Housing Revenue Account had an overspend of £19.8m (gross) which is substantially due to the exceptional impact of energy costs, primarily gas and electricity in the district heating account and electricity for other services such as estate lighting, etc. which are borne by residents either through their weekly heating charge or service charge for homeowners. However, the position is ameliorated through better than expected rental income performance, one-off service underspends elsewhere across the HRA, and a combination of financing measures, including a necessary reduction in the level of revenue contribution to the capital programme and the use of £6.7m of reserves to ensure a balanced position at year-end.

Financial forecast outturn 2023/24

The Council originally set a General Fund (GF) revenue budget for 2023/24 of a net cost of £435.7m which included a savings target of £16.4m. The Housing Revenue Account (HRA) budget was set at £137m.

The period 8 Monitoring Report which went to Cabinet in November 2023 updated members on the forecast outturn for the year. This predicted the GF to be £3.4m over budget. This included a number of pressures:

- Higher demand and cost pressures in home to school transport;
- £1.3m increased costs for those who have 'No Recourse to Public Funds' (NRPF)
- Temporary accommodation (TA) demand pressures which will not be fully contained within the planned TA contingency.

The HRA is showing an overspend of £16.8m. This position is the result of a number of factors largely outside the Council's control, such as government policy and macro-economic events which include:

- The cumulative effect of a government imposed 1% rent reduction for four years for the period 2016-17 to 2019-20 (millions in income foregone;
- A government imposed 7% cap on rents from 1st April 2023 when formula rent would have yielded 11.1%, an annual loss of £9m+ in the current year and a reduced income base going forward;
- Unfunded additional burdens arising from the Fire Safety and Building Safety Acts of 2020 and 2021;
- Unprecedented construction industry inflationary pressure;
- The additional borrowing requirement for the new homes programme and the impact of a three-fold increase in interest rates since December 2021,.

To address the situation the Council is collectively assessing options to manage the short-term pressure by reducing in-year spending and actions are underway to moderate the impact of this through, for example, the repairs improvement programme, an end to end review of void properties and the refresh of the asset management strategy. Additionally, the scheme of management is currently under review and robust spending controls are being implemented. It is also a Council strategic priority to consider how the HRA can be managed in the longer term to ensure financial sustainability.

Financial sustainability (continued)

Budget setting process

The Council appointed a new S151 officer who started in May 2023. The new incumbent adopted a revised approach to budget setting and medium term financial planning and in July 2023 the Council took a new approach to its budget setting process via publication of the "Policy and Resources Strategy: Financial Remit 2024-25 to 2026-272 document. The report set out an approach for the budget process, to identify savings options that fit within the overall policy and financial framework, aligning resources to the Council's key priorities and with regard to the emerging pressures. It also looked at options to generate income between summer 2023 and 2026-27. For the first time the budget included a 3-year view with a Medium Term Financial Strategy (MTFS). Alongside this three year MTFS, is a forward view of the Council's procurement plans across the organisation. These were then incorporated into the budget challenge process that assesses the Council's proposed commitments and savings over the next three years..

This takes on board the recommendation in our audit report of 2021-22. We welcome its introduction.

The budget setting process then follows the steps laid out in the table opposite with a number of "Budget challenge" meetings on its way through the review process before finalisation and sign off at Cabinet and Council Assembly in February 2024.

The budget challenge process this year focused on identifying savings over the three year period, together with identifying Council-wide transformation programmes to reconfigure services and the corporate centre to support the Council delivery plan priorities. Consultation with residents on how to achieve these priorities and more, took place via the Southwark 2030 project, with a report presented in Autumn 2023. The themes identified and actions required to achieve this were then incorporated into the budget process and MTFS.

Date	Meeting	Purpose
July	Cabinet - Budget Remit Report	High-level scene setting, for MTFS
Summer	Strategic consideration of challenges and opportunities - Strategic Directors/Cabinet Members Cross-cutting themes	
September	Cabinet - Updated Financial Strategy	Update the financial remit and confirm the size of the budget challenges facing the council in the period to 2024-25 to 2026-27
Sept/Oct	Budget Challenge Round 1	
October	Cabinet – Capital Governance Review. Proposals to be implemented from April 2024	
November	Cabinet - Updated P&R Strategy	To provide an update (if necessary) to include details of any government funding announcements/Spending Review
	Budget Challenge Round 2	
December	Cabinet - Updated P&R Strategy	To provide options for meeting the budget challenges over the next three financial years
	Cabinet - Council Tax Base	To confirm the council tax base that will apply for 2024-25
January	Cabinet - Updated P&R Strategy	To select proposed solutions for meeting the budget challenge
January	Overview & Scrutiny	Comment on and make recommendations in respect of the cabinet's proposed 2024-25 budget and indicative budgets for future years
February	Cabinet - P&R Strategy	Recommend to Council Assembly balanced budget for 2024-25
	Council Assembly	Council Tax setting and approve a balanced budget for 2024-25 and agree indicative budgets for 2025-26 and 2026-27

Financial sustainability (continued)

Budget Monitoring

The Council has over the past few years typically had a devolved approach to budgetary control with departments expected to manage their own finances, supported by the corporate Finance team. Financial forecasts are updated and presented to Cabinet at months 4 and 8 and year end although regular monthly monitoring takes place at department level.

The table below was presented to Cabinet in January 2024 and this shows the latest forecast for the 2023/24 year end.

Table 1: 2023-24 General Fund Forecast Month 8

General Fund	Budget	Forecast	Reserve Movement	Total use of Resources	Variance after use of reserves
	£000	£000	£000	£000	£000
Children & Families	62,612	62,487	(99)	62,388	(224)
Adult Social Care	78,294	77,968	-	77,968	(326)
Commissioning & Central	6,059	6,035	(97)	5,938	(121)
Education	20,678	24,328	(1,633)	22,695	2,017
Public Health	-	-	-	-	-
Children & Adults total (excl. DSG)	**167,643**	**170,818**	**(1,829)**	**168,989**	**1,346**
Environment, Neighbourhoods and Growth	93,583	85,438	9,435	94,873	1,290
Housing	25,475	29,026	(333)	28,693	3,218
Finance	40,058	44,058	(3,000)	41,058	1,000
Governance and Assurance	22,395	23,578	(565)	23,013	618
Strategy and Communities	7,602	7,999	(505)	7,494	(108)
Support Cost Reallocations	(42,423)	(42,423)	-	(42,423)	-
Contribution from Reserves	(2,500)	(2,500)	-	(2,500)	-
General Fund Service Outturn Forecast	**311,833**	**315,994**	**3,203**	**319,198**	**7,364**
General Contingency	4,000	-	-	-	(4,000)
Outturn	**315,833**	**315,994**	**3,203**	**319,198**	**3,364**

Medium term financial strategy

The latest MTFS was presented to cabinet in February 2024:

Table 1: Revenue Budget 2024-25 to 2026-27

	2023-24	2024-25	2025-26	2026-27
	£m	£m	£m	£m
Un-Ringfenced Government Grants	(82.4)	(84.4)	(79.3)	(79.3)
Revenue Support Grant	(42.2)	(45.0)	(45.0)	(45.0)
Top-Up	(32.9)	(34.3)	(34.3)	(34.3)
Services Grant	(4.7)	(0.7)	-	-
New Homes Bonus	(1.7)	(4.4)	-	-
One-Off NNDR Levy release (Final settlement)	(1.0)			
Ringfenced Government Grants	(78.7)	(88.7)	(88.7)	(88.7)
Public Health Grant	(29.5)	(30.9)	(30.9)	(30.9)
Social Care Grant	(27.6)	(33.1)	(33.1)	(33.1)
Improved Better Care Fund (iBCF)	(17.8)	(17.8)	(17.8)	(17.8)
ASC Market Sustainability & Improvement Fund	(3.7)	(6.9)	(6.9)	(6.9)
TOTAL GOVERNMENT FUNDING	(161.1)	(173.1)	(167.9)	(167.9)
Council Tax	(137.7)	(145.3)	(158.8)	(170.0)
Council tax baseline funding	(128.6)	(137.4)	(148.2)	(158.8)
Council tax base growth	(2.3)	(3.8)	(3.0)	(3.2)
Council tax - annual increase	(3.9)	(4.2)	(4.5)	(4.8)
Council tax - Social Care precept	(2.6)	(2.8)	(3.0)	(3.2)
Council tax - estimated (surplus)/deficit	(0.3)	2.9	-	-
Business Rate Growth	(136.1)	(134.8)	(136.8)	(136.8)
Retained Business Rates	(98.1)	(102.8)	(102.8)	(102.8)
S.31 Grants	(27.4)	(28.2)	(28.2)	(28.2)
S.31 Grant for Business Rates Top-Up	(5.6)	(5.8)	(5.8)	(5.8)
Business Rates - estimated (surplus)/deficit	5.3	1.9	-	-
Support for deficits	(5.2)			
BRR - S.31 grants c/f	(5.0)			
COUNCIL TAX AND RETAINED BUSINESS RATES	(273.8)	(280.1)	(295.5)	(306.8)
Total Funding before contributions from balances	(434.8)	(453.3)	(463.5)	(474.7)
Contribution from earmarked reserves	(2.5)	(2.5)	(2.5)	-
TOTAL RESOURCES	(437.3)	(455.8)	(466.0)	(474.7)
Prior Year Budget	391.1	437.3	455.8	466.0
Inflation				
Pay Awards	5.9	9.5	10.0	6.3
Pay Awards 22/23 unbudgeted pressure	5.5	-	-	-
Contractual Inflation	14.6	9.8	9.0	6.3
Contractual Inflation (Social Care & PH)	14.9	9.4	8.5	5.6
Contractual Inflation (2022/23 unbudgeted pressure)	3.4	-	-	-
Energy price inflation on Council Buildings	4.5	-	-	-
Commitments & Contingency:				
Other Growth and Commitments	13.8	8.7	3.7	2.7
Reverse one-off commitments	-	(0.8)	-	-
Debt Financing (approved programme)	-	2.5	2.0	2.0
Budget Before Savings & Efficiencies	453.7	476.5	488.9	488.8
Budget Gap before Savings & Efficiencies	16.4	20.8	22.9	14.1
Savings				
Effective use of resources and efficiencies	(12.8)	(13.1)	(9.4)	(6.1)
Income, Fees and Charges	(2.5)	(7.5)	(6.7)	(2.6)
Other Savings	(1.1)	(0.2)	(1.4)	(0.1)
TOTAL SAVINGS	(16.4)	(20.8)	(17.5)	(8.7)
TOTAL BUDGET	437.3	455.8	471.4	480.1
In-Year Gap			5.41	5.38
TOTAL SHORTFALL (cumulative)	-	-	5.41	10.79

Financial sustainability (continued)

Based on the Council's forward financial planning the savings required in years 2 and 3 of the MTFS do not look unsurmountable. The Council will have had time to further develop its transformation programme by then plus the assumptions built into the plans are very prudent. Some examples of this are:

- The Council has not assumed they will get the additional ASC money they got for 24/25 (£3m+) even though there is every chance they will get some additional funding
- Inflation assumptions for non pay costs of 5.5%, 4.5% and 3.5% over next 3 years. These are potentially on the high side so any undershoot of these will result in financial savings
- inflation assumptions for pay are 5%/5%/less than 5% in next 3 years. Again these are likely to be on the high side so could result in lower than expected pay expenditure
- Grants income has prudent assumptions associated with it.

In summary, the MTFS presents a picture of a Council which is financially sustainable in the medium term and which is making prudent assumptions and building credible plans for longer term

Savings plans

A key feature of the MTFS is the inclusion of a detailed list of savings and efficiencies across the full range of services. A total of £13.1m of savings have been identified as illustrated in the table below.

		2024-25 £000	2025-26 £000	2026-27 £000	Total £000
	ACE - Governance & Assurance	(370)	(1,095)	(793)	(2,258)
	ACE - Strategy and Communities	(70)	(70)	(94)	(234)
	Children and Adults	(7,095)	(5,889)	(3,676)	(16,660)
of which	*Adults' Social Care*	*(3,250)*	*(2,250)*	*(1,000)*	*(6,500)*
	Children and Families	*(3,208)*	*(3,340)*	*(2,386)*	*(8,934)*
	Education	*(457)*	*(149)*	*(140)*	*(746)*
	Commissioning	*(180)*	*(150)*	*(150)*	*(480)*
	Environment, Neighbourhoods and Growth	(1,160)	(1,150)	(500)	(2,810)
	Finance	(3,145)	(1,049)	(1,000)	(5,194)
	Housing	-	-	-	-
	Public Health	(1,239)	(180)	-	(1,419)
		(13,079)	(9,433)	(6,063)	(28,575)

More than 50% of those savings have been identified in Adults and Childrens Social Care (ASC/CSC). Our discussions and analysis of this service have indicated a strong history of savings identification and prudent financial management that lead us to conclude that these savings estimates have sound foundations and should be achievable under the current management arrangements. Allied to the prudent assumptions included in the rest of the financial planning process our assessment is that the Council is in a good position in terms of its medium and longer-term financial planning.

Managing risks to financial resilience

The Council has identified risks to the capital and revenue forecasts as part of the budget and MTFS. The 2024/25 MTFS has identified a shortfall in the General Fund of £10.5m over 3 years, which is not already covered by savings and efficiency plans. Generally, we find the Council to be well managed and there is a high level of understanding of its budgetary position, budgetary pressures and any savings required. There is an established process by which the budget is reviewed regularly, and issues are reported on a timely basis to those charged with governance.

Reserves

We note that the Council sets aside unallocated reserves and reviews these annually in the context of emerging financial called upon in line with plan. The use of £2.5m reserves to support the balancing of the budget in both 2023-24 and 2024-25 is not an excessive or irresponsible use of reserves and we note that moving forward beyond 2024-25, use of reserves appears well managed in the context of the required levels of savings. The Council is not reliant on use of reserves due to prudent funding and inflation assumptions in the MTFS though there is an assumption that transformation programme will deliver savings in the latter years.

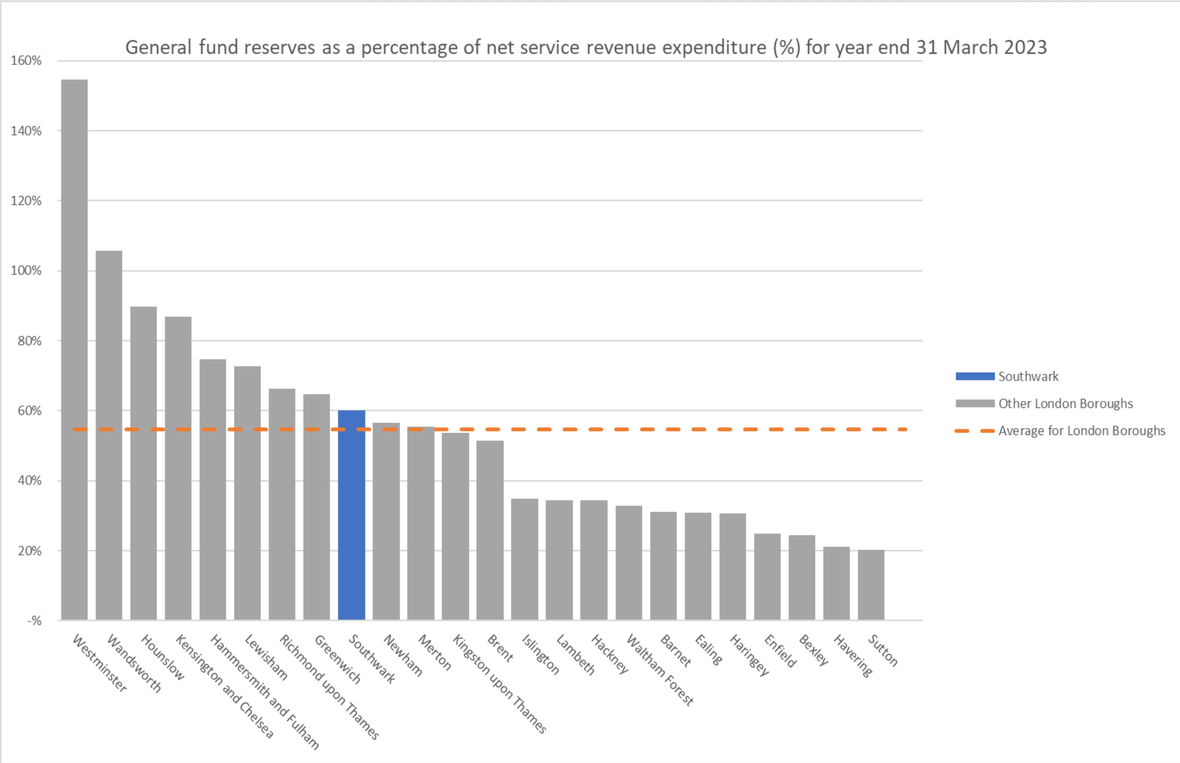
The Council's track record of good financial management and delivery to budget year on year, has enabled the Council to operate comfortably with a relatively low level of unallocated general fund and earmarked reserves, compared to other similar London borough councils. This is indicative of a council that is focused on putting its financial resources to work rather than holding unnecessary reserves. Reserves remain within the generally accepted levels required (ie. No less than 5% of net expenditure).

Financial Sustainability (continued)

With this in mind, we undertook some analysis of the Council's reserve levels in comparison to those of other similar councils (see table opposite). The benchmark group we selected was based on data from published 2022/23 draft accounts and includes other comparative London boroughs). The results indicated that the level of available general fund and earmarked reserves as a proportion of the net cost of services for LBS Council as at 31 March 2023 was the mid range in the group.

We are therefore satisfied that given the Council does not have a track record of placing significant reliance on reserves and is forecasting a breakeven position in 2023/24, we observe that the Council has sufficient resources available to manage any unforeseen financial risks.

We recommend that, as a piece of good practice, the Council undertake its own analysis of its relative level of reserves on an annual basis, and in particular its policy towards earmarked reserves, in comparison to peer councils in order to continually test it reserves strategy.



Source – Grant Thornton Borrowing and Reserves Analysis tool

This data has been obtained from unaudited financial statements for 2022-23.

Financial sustainability (continued)

Capital

The Council has a Capital Strategy in place which is clearly linked to the priorities in the Corporate Plan. The General Fund capital programme 2024-2029 totals circa £69m, the larger capital programmes are:

- £28m for Leisure Investment, plans to be discussed with members in early 2024
- £16m for the ongoing fleet replacement programme
- £2.5m for the provision of a new DEN's One stop shop and foodbank.
- £4.5m for Light Industrial development and delivery
- £6m for Place shaping acquisitions

Major capital projects are managed by the relevant budget holder/contract manager. There are quarterly reports on capital spending and the progress of the capital programme and these go to Cabinet with explanations of the major variances. We note that the quarter 2 monitoring report in November 2023 is reporting slippage of £4.1m, a large proportion of which (£2.5m) relates to the creation of a new Community Facility and Foodbank at the Hub (Dens) which is linked to the housing development.

In the Housing Revenue Account capital spend is planned to be £268m across the five years. For 2023/24 the Housing capital budget was £81m. The new Housing Revenue Account (HRA) business plan was presented to Cabinet in January 2024. This sets out the financial implications of plans for new and existing Council homes contained in the Council's Housing Strategy 2024-29. The Business Plan covers a 30 year period, with a focus on the medium-term (the first five years) where there is greater certainty on costs, demands, resources and pressures.

In summary we are content that the arrangements for capital budgeting and monitoring are reasonable.

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 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.

In the 2022-23 financial year the Council 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. During the past year since our last audit report the Council has made good progress and has repaid £11.6m of the £21m initial funding. This has been achieved in spite of the rise in costs for SEND transport and also a rise from 1,500 to 3,000 of children with an Education, Health and Care (EHC) plan. As a result, we are comfortable that the Council is delivering its deficit recovery programme in line with plan and has avoided the level of slippage experience by a number of other councils.

Financial sustainability (continued)

Borrowing

The Council's debt and borrowing position is illustrated in the table below.

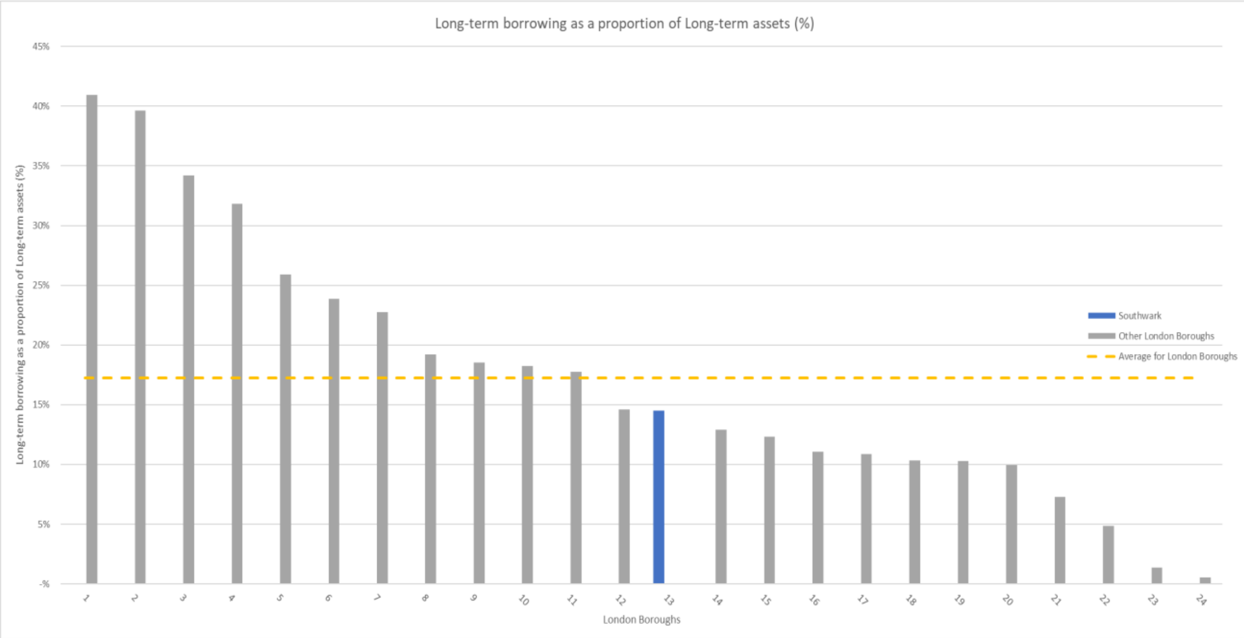
Liability Benchmark (£m)	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Loans CFR	**1,416**	**1,761**	**1,981**	**2,080**	**2,152**
Less: External Borrowing*	991	964	916	888	856
Internal Borrowing / (Over Borrowing)	**425**	**797**	**1,065**	**1,192**	**1,296**
Less: Useable reserves	376	343	323	300	283
Less: Working capital	269	234	160	96	17
Investments/(New Borrowing)	-220	220	583	797	996

Net Borrowing Requirement	771	1,184	1,499	1,685	1,834
Minimum Investment Balance	140	65	52	43	40
Liability Benchmark: Year-End	**911**	**1,249**	**1,551**	**1,728**	**1,874**

**Shows only loans to which the Authority is committed*

The table suggests the Council will require a minimum level of borrowing in 2024-25 of £302m (£1,551m in 2024-25 less £1,249 in 2023-24), to maintain the minimum investment level of £52m at year-end. The actual level of borrowing at year-end depends on whether the Council's spending plans proceed as planned and on the actual timing of borrowing.

The table opposite shows the Council's long term borrowing as a proportion of its long term assets and shows that the Council is on the prudent side when compared to its peers. This demonstrates the Council is taking a sensible approach toits longer term financial management



Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any significant weaknesses and have not raised any key recommendations.

Financial sustainability - Improvement recommendations

Improvement Recommendation 1	We recommend the Council undertakes its own analysis of its relative level of reserves, and its policy towards earmarked reserves in comparison to peer councils, in order to test its reserves strategy.
Summary findings	While we are satisfied that the Council does not have a track record of placing significant reliance on reserves and that the Council has a relatively strong financial position with a smaller medium term funding gap and a lower level of financial risk than others when compared to its benchmarking comparator group it is good practice to regularly test this position each year.
Criteria impacted	Financial sustainability
Auditor judgement	We recommend this approach to reserves analysis as a piece of best practice rather than an identification of any sort of financial management weakness .
Management comments	We will undertake a comparison exercise of reserve levels with peer councils on an annual basis when updating our Medium Term Financial Strategy.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

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 effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

Monitoring and assessing risk

The Council's risk management arrangements remain the same as we reported in last year's report. The Council maintains risk registers that capture the key departmental and corporate risks to the Council, including areas of risk opportunity. Key risks are held on the Council-wide risk management system (JCAD) which each department feeds into. Examples are the impact of the cost of living crisis on Council services, overspends on the Housing Revenue Account, Schools and Education budget overspends, especially SEND. The JCAD is monitored centrally by the risk and insurance manager. Risks are identified at least annually and are reviewed at least quarterly by each department, and consistently assessed using the Council-wide risk assessment methodology.

Risks are identified under the following risk categories: economic, financial, operational, staffing and culture, reputation and legal and regulatory compliance. Risk assessment is measured by likelihood of occurrence and by potential impact. Impact to the Council is measured under the key areas of 'life and limb', customer service, staffing and culture, compliance with regulations/ law, reputation and financial.

Chief officers also monitor and review key Council risks on a regular basis, and corporate risks are reported to the audit, governance and standards committee on an annual basis. The latest report went to cabinet in February 2024.

The summary of risks was reported in the 2024 annual report:

Risk Assessment	Score Range	Number of Risks	
		Jan 2023	**Jan 2024**
Red	76 - 100	18	**13**
Amber	37 - 75	66	**70**
Yellow	22 - 36	53	**42**
Green	1 - 21	27	**32**

Leadership, decision making and committee effectiveness

The Council operates a Leader and Cabinet form of executive arrangements. In addition, there are six scrutiny committees which hold the Cabinet to account. The work of the Council's committees is governed by the Constitution. The Council's Constitution sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is shared with all staff members on joining and is openly available on the Council's website. The Constitution is regularly reviewed and updated, and was last reviewed in October 2023. Relevant information is provided to decision makers before major decisions are made to ensure there is appropriate challenge. For example the MTFS document is very detailed and clearly sets out the decisions required and provides detailed explanations for the financial forecasts.

The Council's Annual Governance Statement (AGS) highlights the key governance issues the Council has faced in 2022-23 – Cyber security, the impact of Covid-19, the council's ambitious housing programme, funding and the carbon neutral 2030 commitment

The past year has seen significant change in the senior leadership with the CFO and director of housing both departing in that period. The council had also appointed a new CEO in May 2022. This represents a significant turnover at senior leadership level but based on our discussions it appears to have been a relatively smooth transition. We discussed the transition with both the CEO and the new CFO and both confirmed that, while it has been challenging, especially given both the financial and housing challenges currently being faced by the council, they feel the transition has gone as smoothly as they could have wished.

Governance (continued)

Monitoring and ensuring appropriate standards

The Council has arrangements in place to monitor compliance with legislation and regulatory standards. The arrangements include the oversight of the Monitoring Officer, and the work of internal audit. The Annual Governance Statement is compliant with the CIPFA code and was reviewed and approved by Audit, Governance & Standards Committee (AGSC) in July 2023. An appropriate level of care is taken to ensure the Council's policies and procedures comply with relevant codes and legislative frameworks.

The Council has a Counter-Fraud and Counter Corruption Policy, as well as a Whistleblowing Policy, Code of Conduct and Anti-Money Laundering Guidance. These document the policies and procedures of the Council, as well as the ethical behaviours expected of staff.

A Register of Interests is maintained and there is a standing item on all meetings of the boards and panels to disclose any interests relating to matters on the agenda. There is a good suite of policies in place, covering anti-fraud and corruption, and the Council has an established anti-fraud culture. We identified in the previous year, that the Council could disclose gifts or hospitality which had been declined. This has been reviewed and included in the recent review of the Constitution by the Monitoring Officer. We have not been made aware of any significant non-compliance with the Council's governance framework, other breaches of legislation or regulatory standards, or serious data breaches.

Internal Audit

The Council have an outsourced Internal Audit (IA) function 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 (same opinion as in 19-20, 20-21 and 21-22). The IA annual report for 2022-23 (presented to the Audit and Governance Committee in July 2023 stated that:

"*The relative proportion of high, medium, and low recommendations is consistent with previous years, and management has continued to respond positively to reports issued with adequate action plans to address the risks and issues identified. We have confirmed with reference to evidence that 92% of recommendations due for implementation by the date of reporting had been completed. This represents an increase from an implementation rate of 87% in 2021-21 and is the highest that we have reported since our appointment as the Council's internal auditors*"

Areas of limited assurance relate to building safety, IT software licence management, mental health services, No recourse to Public funds, Parking Management and Estates Parking Permits, SEND Finance, Supplier resilience, Tenant management organisations (TMOs) In all cases remedial actions are in place.

Audit, Governance and Standards committee effectiveness

The purpose of the Audit, Governance and Standards Committee is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements at the Council. The committee's role in ensuring that there is sufficient assurance over governance, risk and control gives greater confidence to those charged with governance that those arrangements are effective. There are no statutory requirements that determine the composition of the Audit Committee.

The Council's Audit, Governance & Standards Committee (AGSC) comprises seven members. CIPFA's recommendation in Audit, Standards & Governance Committees: Practical Guidance for Local Authorities and Police (2022) is authorities should strive to have no more than eight members, the Council is therefore following the recommendation. CIPFA guidance emphasises the importance of the separation of executive roles and the membership of the Audit, Governance and Standards Committee. Where an authority has a cabinet system of governance, as the Council does, including a member of the cabinet on the committee is discouraged. We have compared the membership of the AGSC with the members of the Cabinet to ensure a clear separation. We can confirm that no members of the Cabinet are also members of the AGSC, in line with the guidance.

There are currently no independent members on the Council's AGSC. CIPFA guidance and the Redmond Review (2020) recommend the committee includes two co-opted independent members. We note that there are currently no independent members on the Committee but note too that the Council has put in place a recruitment exercise for an independent member.

Improvement recommendation 2: The Council should consider including an independent member with accounting experience to the Governance (Audit, Governance and Standards) committee.

To discharge its responsibilities effectively, CIPFA guidance recommends the Committee meet at least four times a year. The Council's Audit, Governance and Standards Committee met five times in 2022/23 and has already met six times in 2023-24. Attendance at the AGSC has been good in both years.

Governance – Objection

Objection to the accounts

During the year we have been responding to an objection, from a member of the public, made under section 27 of the 2014 Local Audit and Accountability Act 2014, relating to the Council's arrangements for funding and monitoring the activities of the Fair Community Housing Services (FCHS) local Tenant Management Organisation (TMO). The objector was concerned that: Council funding, earmarked to be spent on external decorations, of over £1.8 million during the period 2008 to 2022, had not been spent as intended; that the TMO had not kept appropriate financial records; and that the Council's monitoring arrangements over the period had been inadequate.

We agreed that the Council's Internal Audit service would undertake enquiries regarding the matters raised and, following completion of their work in January 2024, we concluded that we concluded that Internal Audit had fully addressed to our satisfaction all of the matters raised by the objector within the objection and that the concerns raised were valid and, as such, the objection was upheld. We were satisfied that Internal Audit had demonstrated sufficient impartiality and challenge to the Council in conducting its work.

In coming to this conclusion, in determining the objection, we considered the following key findings from Internal Audit's work:

- There was limited evidence from the TMO regarding how it had spent the external decorations money and therefore the Council could not confirm it was spent appropriately. The TMO agreed to repay the Council the funds it had received but could not account for. The TMO's Board has already paid back £1 million immediately and has asked the Council to agree a repayment plan for the outstanding £0.86 million. This proposal is being considered by the Council.
- Allocation of funding to the TMO was not always clearly detailed for what purpose it is intended for, making it difficult for the TMO to know what amounts were for external decorations.
- Council officers could not provide full supporting evidence to show the TMO complied with the Modular Management Agreement (MMA) between the Council and the TMO and, consequently, the Council had not executed its contract monitoring responsibilities adequately.
- The latest MMA does not have a schedule for review, or a responsible officer assigned to keep on top of any changes and to regularly confirm the MMA remains fit for the Council's purpose.

The objector had requested that we issue a Report in the Public Interest, which was a relevant consideration, given Internal Audit's findings. In undertaking this work, we had regard to the requirements of the 2014 Local Audit and Accountability Act, the Code of Audit Practice and the National Audit Office's Auditor Guidance Notes (AGNs) 04 and 07. In compliance with this framework, we sought to follow a proportionate response and, as such, considered:

The significance of the issues raised, which action would be in the public interest, the Council's response to the issues raised, including its plans to remedy any defects in its arrangements.

Given the Council's planned response, whether the issues are likely to recur, and more generally, what audit action at this point would make a difference in future.

In this instance, based on the above considerations, we decided to apply our discretion not to produce such a report, as the Council had formally accepted all of Internal Audit's findings and had debated the matter fully and transparently, in public, in a meeting of the Council's Audit, Governance and Standards Committee on 25 April 2024.

At that meeting, members had agreed a series of actions to address the matters raised, which include:

- Improving communication arrangements between the Council and all of its 17 TMOs and putting in place new regular training arrangements for TMO staff.
- Ensuring that all TMO's maintain adequate evidence of their spend and transactions are clearly documented.
- Conducting a forensic audit of FCHS's spend, to verify where it spent the external decorations fund, whether there had been any misappropriation of the funds provided and if FCHS remains a going concern.

Given that large sums of funding have appeared not to have been spend as intended on external decorations by FCHS, the Council needs to assess its future spending needs on the condition of the buildings managed by this TMO. The Council has informed us that a stock condition survey will now be undertaken to determine any level of dilapidation and the works required to put things right.

In addition, the Council has assured us that, a comprehensive review of funding and expenditure incurred by all of Southwark's 17 TMO's, including Fair Community Housing, is currently being undertaken by officers with specialist skills and who are independent of the Tenant Management Initiatives Team.

Following completion of this year's audit, Grant Thornton will no longer be the Council's external auditor, following normal auditor rotation arrangements. We consider that it will be important for the Council's new external auditor to monitor progress in this area and we will discuss with the new external auditor, appointed for 2023/24 onwards, the monitoring of those actions, taking into account our respective responsibilities under the Code of Audit Practice.

Given the findings, we concluded that there had been a significant weakness in the Council's governance arrangements for the funding and monitoring of TMOs and raised a key recommendation to address a significant weakness in arrangements, as required by paragraph 3.14 of the 2020 Code of Audit Practice and paragraph 60 of AGN 03 and under section 27(6) of the Local Audit and Accountability Act 2014, to that effect. This matter was judged not to impact our opinion on the financial statements, given the materiality thresholds set. But we do note its significance from a value for money perspective.

Governance (continued)

Scrutiny arrangements

The Centre for Governance and Scrutiny (CGS) were invited in August 2022 to evaluate the scrutiny function of the Council, explore options, and make suggestions on how processes could be improved. Findings of the review are being considered for 2023/24 and it is encouraging that this reported in April 2023 that 'scrutiny had a good foundation in Southwark.' The specific areas the CGS reviewed were support for scrutiny, organisational culture, level of collaboration, work planning, committee structure, output/impact and chairing of committees.

Key conclusions from the report worthy of note are:

- the organisational culture in Southwark has a good foundation and there is evidence of mutual respect and appreciation of the roles of Officers and Members
- the Council must continue to reinforce collaborative relationships between scrutiny, Cabinet and Directors whilst maintaining the independence of scrutiny.
- The current structure of one Overview and Scrutiny Committee and its four Commissions is felt to be working effectively. The Committee enables the Chairs of the Commissions to come together to scrutinise wider Council business including the Corporate Plan, finance, and human resources issues
- Chairing of scrutiny committees is generally felt to be effective and inclusive. Most Members felt they were given opportunities to contribute to meetings.

There were 11 specific recommendations across the seven areas the CGS reviewed. We note the Council's plan to address these recommendations presented to the Overview and Scrutiny committee in November 2023.

We note from discussions with the Monitoring Officer that the Council plans to make changes to the constitution about how they call matters in to scrutiny committees. Currently , only 3 members of the scrutiny committee can call matters in. This to be extended to 5 members so that means the pool of Members who could call in an executive or non executive decision is now much wider than it used to be.

Conclusion

Overall, with the exception of our work relating to the objection raised by a member of the public, we are satisfied the Council has appropriate governance arrangements in place. We have, however, identified a significant weaknesses requiring issuance of a key recommendation., regarding this objection, to address a significant weakness in arrangements, as required by paragraph 3.14 of the 2020 Code of Audit Practice and paragraph 60 of AGN 03 and under section 27(6) of the Local Audit and Accountability Act 2014. We have also raised one improvement recommendation from our other considerations of the Council's overall arrangements for governance.

Governance - Key recommendation

Key Recommendation	The Council should ensure that it fully implements the agreed actions following Internal Audit's consideration of the Council's governance arrangements for funding and monitoring the activities of the Fair Community Housing Services (FCHS) Tenant Management Organisation (TMO). (This key recommendation impacts both the 2021-22 and 2022-23 year, we had not certified either years audit whilst we worked through this objection raised to the 2021-22 financial statements)
Why/impact	The Council's arrangements were inadequate, over a period of several years, for ensuring that the TMO had properly spent and accounted for the Council's allocated funding for external decorations.
Auditor judgement	We note Internal Audit's conclusions that "*the TMO has limited financial management controls as we were unable to fully verify evidence of where the TMO had spent the external decorations monies or that it was spent appropriately. The Council should consider its next steps in trying to identify where the monies have gone, whether any expenditure was ultra vires and whether the TMO remains a going concern as a result of this. We also found the controls designed to mitigate the risks around the management of TMOs were not well designed or fully operating.*" Based on this position, Grant Thornton considers that the Council does not have adequate governance arrangements for funding and monitoring the activities of TMOs. Given Internal Audit's findings, we concluded that Internal Audit had fully addressed to our satisfaction all of the matters raised by the objector within the objection and that the concerns raised were valid and, as such, the objection was upheld. We were satisfied that Internal Audit had demonstrated sufficient impartiality and challenge to the Council in conducting its work. As the objection was upheld, a Report in the Public Interest may have been justified. However, in this instance we decided to apply our discretion not to produce such a report, as the Council had formally accepted all of Internal Audit's findings and had debated the matter fully and transparently, in public, in a meeting of the Council's Audit, Governance and Standards Committee on 25 April 2024 Because of this, any further costs of producing a Report in the Public Interest would not have been be proportionate or necessary, in our opinion.
Management Comments	See next slide for managements response

Governance - Key recommendation

Key Recommendation	The Council should ensure that it fully implements the agreed actions following Internal Audit's consideration of the Council's governance arrangements for funding and monitoring the activities of the Fair Community Housing Services (FCHS) Tenant Management Organisation (TMO). (This key recommendation impacts both the 2021-22 and 2022-23 year, we had not certified either years audit whilst we worked through this objection raised to the 2021-22 financial statements)
Management Comments	We note Internal Audit's conclusions that "the TMO has limited financial management controls as we were unable to fully verify evidence of where the TMO had spent the external decorations monies or that it was spent appropriately. The Council should consider its next steps in trying to identify where the monies have gone, whether any expenditure was ultra vires and whether the TMO remains a going concern as a result of this. We also found the controls designed to mitigate the risks around the management of TMOs were not well designed or fully operating." Based on this position, Grant Thornton considers that the Council does not have adequate governance arrangements for funding and monitoring the activities of TMOs. Given Internal Audit's findings, we concluded that Internal Audit had fully addressed to our satisfaction all of the matters raised by the objector within the objection and that the concerns raised were valid and, as such, the objection was upheld. We were satisfied that Internal Audit had demonstrated sufficient impartiality and challenge to the Council in conducting its work. As the objection was upheld, a Report in the Public Interest may have been justified. However, in this instance we decided to apply our discretion not to produce such a report, as the Council had formally accepted all of Internal Audit's findings and had debated the matter fully and transparently, in public, in a meeting of the Council's Audit, Governance and Standards Committee on 25 April 2024 Because of this, any further costs of producing a Report in the Public Interest would not have been be proportionate or necessary, in our opinion.

Governance - Improvement recommendations

Governance

Recommendation 2	The Council should consider including an independent member with accounting experience to the Audit, Governance & Standards Committee.
Why/impact	CIPFA guidance and the Redmond Review (2020) recommend the committee includes two co-opted independent members.
Auditor judgement	Improvement recommendation
Summary findings	The Audit, Governance & Standards Committee does not include an independent member on it
Management Comments	This will be considered as part of the annual self-assessment exercise undertaken by audit, governance and standards committee members

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

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
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance review, monitoring and assessment

The Council has made changes to its performance management regime during the 2023-24 year. These changes were in plan when we carried out the 2021-22 audit in early 2023 but have now been implemented in full. The model has changed from the performance challenge boards used in 2022-23. The performance reporting process involves performance reports now taken to CMT on a quarterly basis. These cover the following areas:

- Residents data – e.g. complaints, interactions with residents

- Resources - e.g. Finances, Council tax, use of facilities, IT

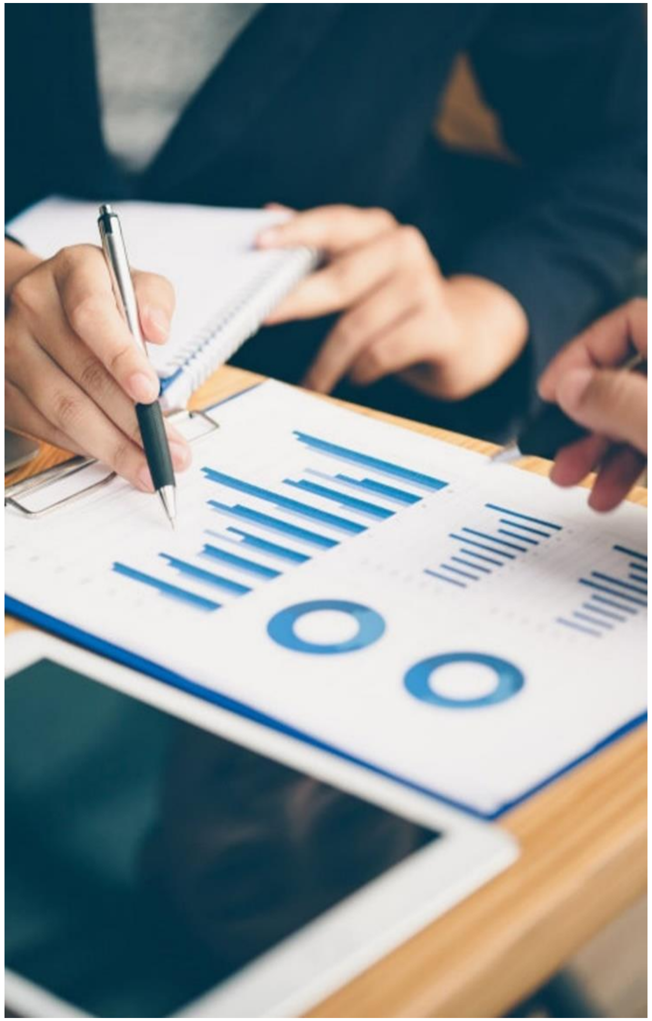
- Internal processes - ensuring statutory services are delivering in line with the Council's legal obligations e.g. Waste and cleaning

- Improvement - internal capacity and learning. E.g. training and development, health and safety., transformation and change programmes.

As part of the above process there is also an annual review of performance against the Council's Delivery Plan

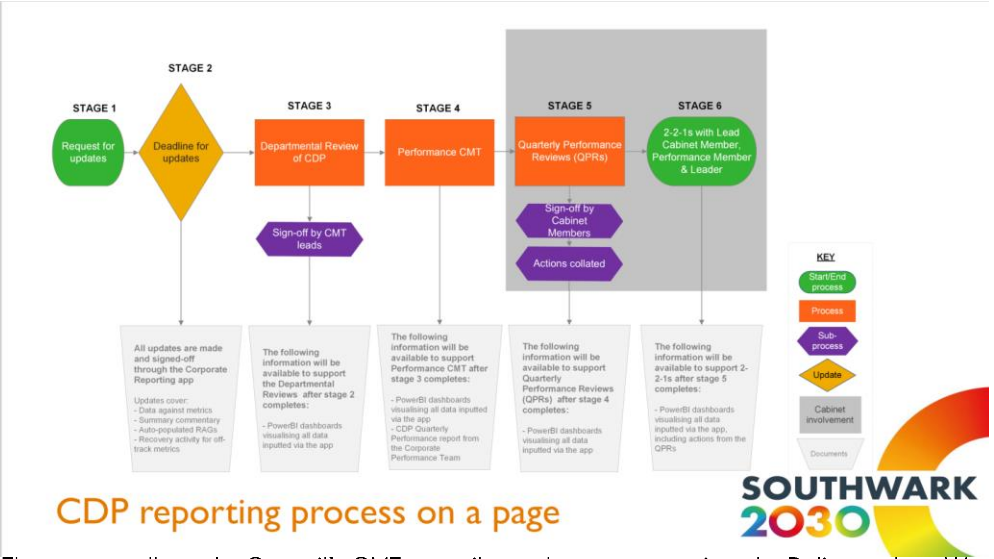
The Council has also established a Leader's Board where the Leader discusses strategic issues and challenges across each of the Cabinet members portfolio. This was developed during early 2023 and is now in operation in 2023-24. Delivery Plan data feeds into this conversation as does the quarterly performance data and this creates a rounded picture of service performance. The new process is more systematic using data against the Delivery plan commitments and ensures this is monitored and challenged along the way. There is an annual programme of meetings between the Leader, the CEO and the relevant Strategic Director (SD). The cycle of meetings ensures each portfolio is covered twice in an annual period. The Assistantt Chief Executive, Strategy and Communities (who has responsibility for performance) attends the meetings with the Leader, the CEO and the SD Finance and they discuss the challenges for each of the portfolio.

We reviewed the latest organisational performance report for quarter 3 2023/24 submitted to CMT in February 2024. Some of the areas of challenge and their direction of travel in performance terms for the council can clearly be seen via this report. Housing is a good example which we have referenced elsewhere in this report.



Improving economy, efficiency and effectiveness (continued)

The new process for performance reports is summarised in the extract from the quarter 3 2023/24 performance report below:



The process allows the Council's CMT to easily track progress against the Delivery plan. We reviewed some examples of the performance information shared with CMT and found that they were sufficiently detailed to enable detailed review by the CMT and Cabinet. The table below summarises performance at quarter 3 2023/24.

Table 1: Summary of reporting and performance for 23/24 Q3

Dept	Total # reportable metrics	# unreported	# awaiting CMT sign-off	# red RAG rated	# amber RAG rated	# green RAG rated	# for info only
CAS	49	9	0	2	4	17	17
ENG	122	0	0	21	14	78	8
Planning & Growth	*23*	*0*	*0*	*5*	*2*	*16*	*0*
Finance	20	1	1	2	1	5	10
G&A	5	0	0	0	0	4	0
Housing	44	0	0	9	7	22	6
S&C	1	0	0	1	0	0	0
TOTAL	**225 (100%)**	**10 (4.4%)**	**1 (0.4%)**	**35 (6.5%)**	**26 (15.5%)**	**126 (56.0%)**	**41 (18.2%)**

*Noting Planning & Growth has since moved to Finance, however at the beginning of the reporting period responsibility sat with ENG so their figures are included with ENG, updates to responsibility will be made once the reporting period has closed.

Procurement and contract management

In our 2021-22 audit report we made a number of recommendations relating to procurement and contract management arrangements. Specifically we found 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 was a lack of consistency in completion of the register. The procurement team were unable to give us an assurance that the register is complete and accurate. This situation remains the same in our current audit.

The procurement team reported to CMT in March 2023 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 concluded that:

"*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 recommended 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. We are disappointed to note that there has been very slow progress in terms of addressing this recommendation. This is understandable to the extent that the new S151 officer who arrived in May 2023 has taken time to review the finance function and made some changes involving moving the procurement function into his directorate. Other priorities have taken attention away from the procurement and contract management functions but we urge the Council to quickly address the recommendation from the 2021-22 report now that the organisation is starting to bed in following the changes at senior leadership level. To that end we have included the prior year recommendations in an appendix to this year's report with a note that these still need to be addressed.

Improving economy, efficiency and effectiveness (continued)

Partnership working

As a general approach the Council has looked to in-source services For example in June 2023 they successfully brought back in house the Council's Leisure service.

There are however still some good examples of where the Council works well in partnership arrangements, for example:

- Adopt consortium is a partnership with 10 other London Councils (Greenwich has been added in the past year) for the provision of adoption services

- Partnership Southwark is a Local Care Partnership within the overall South East London Integrated Care System, working with other health, care and non-statutory organisations and local communities to bring together services and support at a neighbourhood level so that they do a better job of keeping people healthy and meeting their needs. This is often called "integrated community-based care". The focus is on groups most affected by long-standing health, social and racial inequalities and the work is informed by engaging the community in Southwark to understand their needs, develop services and support that work for them, and empowering people to look after their own wellbeing and live longer, healthier lives, by focusing on prevention and self-management. We want Southwark to be a borough where everyone can contribute to the overarching outcomes that we are seeking to achieve for the benefit of all communities, and no one group or community is left behind.

Two of the key partnerships for the Council are: strategic partnerships:

- Children and Families' Trust
- Health and Wellbeing Board

Southwark Council and NHS South-East London Clinical Commissioning Group (CCG) are partners in the provision of services to support reduced hospital admissions and length of stay. Joint arrangements of this type are permitted under Section 75 of the National Health Service Act 2006. The BCF provides various services to residents of Southwark who benefit from specific targeted interventions, as well as supporting hospitals to treat people closer to their homes and communities. The Council is the lead authority for the arrangement. The arrangement is made in accordance with Section 75 (S75) of the National Health Service Act 2006 and any surplus or deficit generated will be the responsibility of the respective partner to whom it is attributed as per the BCF planning group. The pooled budget includes all income and expenditure relating to the Better Care Fund (BCF), whether funded by the local authority or the NHS. It is hosted by Southwark Council; however not all transactions pass through the Council's accounting system.

Adult Social Care

Councils are facing key challenges including:

- The lack of transparency in future funding.
- Increasing demand (and complexity of that demand) across all care cohorts (older persons, learning disability and mental health).
- Increasing prices charged by care providers (due to wider inflationary pressures, difficulties in recruiting care staff and the impacts of the Government's recent Fair Cost of Care Exercise); and .
- Lack of capacity to transform its services to meet the increasing challenges ahead.

As a result, Adult Social Care at any upper tier council is one of the highest risk areas of performance. However, it is a risk that is being managed well by the Council. At the end of 2022/23, the ASC budget was underspent by £2.5m. This included the use of earmarked reserves and also planned savings of £6.6m which were achieved in year. The service is also on track to achieve its savings target of £4.2m for FY23/24. A significant reason for this strong financial performance (which has been the trend in the past several years) is the service's constant reviews of care packages to ensure that care packages reflect the needs of service users on a value-for-money (VFM) basis. Other reasons for the underspend are:

- The Council's reablement service, which it runs jointly with the NHS. This reduces the time that service users spend in hospital (which would otherwise result in escalated needs) and prepares them better for getting back to independent living with reduced or no follow-on social care needs.
- Flexicare housing – the Council has a significant amount of housing stock and some of this is used to support residents on a more effective, VFM basis.
- The Council owns 4 care homes and has plans to buy another from a provider who is looking to exit. This allows the Council to achieve better outcomes for service users, again on a VFM basis.
- An ethical care charter for home care. All providers have to pay the London Living Wage to care staff. The Council made an initial investment of £5m in this but it has allowed them to stabilise future rate increases by providers (the Council is now mid-range within London boroughs in terms of home care hourly rates) which supports budget adherence. Further, it has reduced home care staff turnover, improved outcomes for service users with the resulting financial benefits this provides.

Improving economy, efficiency and effectiveness (continued)

However, the future of ASC in 2023-24 and beyond is challenging. The Council is having to grapple with continuing pressures on NHS budgets resulting in reduced funding contributions on some care packages at times as well as increased costs from discharging pressures from acute wards into residential and nursing care homes. The continuing trend of more placements/packages combined with higher unit costs per placement/package that the Council has faced in recent years is unlikely to reduce in the either the short or medium term.

Medium to long term financial planning in ASC has also been constrained by wider sectoral uncertainty. This includes the delays to some Social Care Reforms (in particular, Charging Reform), the new CQC assurance framework for ASC and the rollout of Integrated Care Systems. The financial sustainability of demand led services, in particular ASC, continues to be identified by the Council as a key priority area of focus. So, while the service is currently managing the demand and financial pressures in this area well, it needs to remain vigilant to these continuing pressures.

Childrens Social Care

Councils in general are facing key challenges in Childrens Social care (CSC) including:

- An increase in the number of Children-in-Care (CiC) or otherwise known as Looked After Children (LAC)). This is the result of wider societal challenges including increasing deprivation, domestic violence, substance misuse and mental health needs.
- Changing CiC placement mix to more expensive ones such as Independent Fostering Arrangements (IFA's) and external residential placements due to a net reduction in in-house foster carers and increase in young people's challenging behaviours.
- Significant increases in the weekly costs of external residential placements for CiC: and
- Increasing costs in SEND service delivery including SEN Transport.

As a result, CSC at the Council is one of the highest risk areas of performance. However, like ASC, the Council has been managing these challenges well. Indeed, the Council has managed to reduce its CiC to historically low levels – from c.670 down to 420. The cost of CiC typically makes up c.50% of the cost base of CSC so a reduction in CiC is both positive from an outcomes as well as a financial perspective. Major contributors to this performance are a high performing Early Years service (to reduce demand into CiC in the first place) and also a strong Youth Justice scheme which elicited positive feedback from a recent peer review.

The Council also provides intensive support for families in trouble – to reduce needs escalation proactively – via an in-house clinical service. This has had a positive impact in terms of the outcomes for children and for families – with resulting cost pressures alleviated as a result.

Care leavers, in particular, is an area where the Council has been able to manage its costs effectively as it has made use of its large housing stock base to allocate accommodation to care leavers (rather than using the more expensive external marketplace given the increasing cost of London rentals). The Council has also been able to reduce its agency spend. Further, the Council has opened its own children's home with another one planned to be open shortly. This will provide capacity to support up to 9 CiC and further reduce reliance on the external residential care market where the average weekly cost of a children's home placement in now in excess of £5,000 per week. The Council is currently exploring the option to open a third children's home in 2025.

Like ASC, medium to long term financial planning in CSC has also been constrained by wider sectoral uncertainty. The financial sustainability of demand led services, in particular CSC, continues to be identified by the Council as a key priority area of focus. So, while the service is currently managing the demand and financial pressures in this area well, it needs to remain vigilant to these continuing pressures.

Conclusion

The Council has updated its performance management regime in the past year. We note that this work is in progress and the direction of travel is positive. As with all councils, Housing presents financial challenges and the turbulence in the wider economy has impacted on costs for repairs and maintenance. That, allied to increased regulatory requirements, means the Housing service is under pressure as we have noted in our follow up to the 2021-22 key recommendations. The Council has recognised this and its updated HRA Business plan and emerging Asset Management strategy means that the Council is responding positively to managing those pressures..

We note the relatively slow progress on our recommendations from the 2021-22 report for procurement and contract management arrangements but acknowledge that the new Chief Finance Officer needed time to assess the structure and functions of the Finance department. We are pleased to note that plans are in place for the procurement review to take place in the first half of 2024. Significant challenges in the Housing service that we reported on in the prior year, continue to be an area of focus for the Council but again we not that significant progress has been made in addressing these.

We have not identified any significant weaknesses and have not raised any key recommendations or improvement recommendations.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
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 (MTFS) 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	January 2024	The Council has actioned this recommendation as part of its 2024-25 budget planning and MTFS	Yes	No
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.	Improvement	January 2024	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.	Yes	No
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.	Improvement	January 2024	The Council has not yet actioned this recommendation. This is largely due to the arrival of a new S151 officer in may 2023 and the need for him to re-assess the finance structure. Work is planned to address procurement and contract management in Spring 2024	No	To follow up in 2023/24 audit
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.	Improvement	January 2024	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.	No	To follow up in 2023/24 audit

Opinion on the financial statements

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

- give a true and fair view of the financial position of the Council as at 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We expect to issue an unqualified opinion on the Council's financial statements following the completion of the matters set out in our ISA 260 report.

Use of auditor's powers

We bring the following matters to your attention:

	2022/23
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014 (the Act), auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.	We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.
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.	Whilst we upheld an objection made under section 27 of the Act, we did not issue a Public Interest Report, as the Council had already investigated matters and had fully reported upon the issues in public, including its remedial actions. This objection was raised to the 2021-22 accounts.
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.	We did not make an application to the Court.
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 authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority 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.	We did not issue any advisory notices.
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 authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not make an application for judicial review.

Other reporting requirements

Audit Findings Report

More detailed findings can be found in our AFR, which is included in this agenda pack.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

The Council is below the reporting threshold and therefore we have nothing to report on this matter.

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.

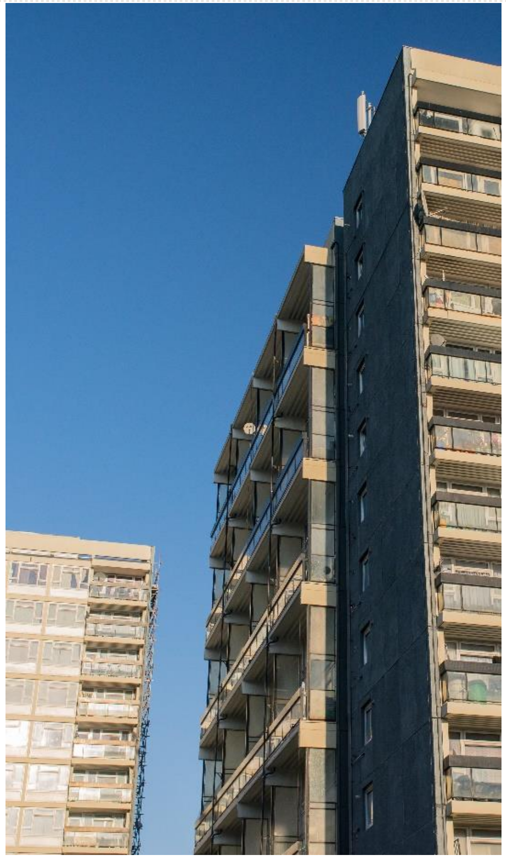
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B:
An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	Page 29
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's 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 6-7, 21
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 16, 22