



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

27 February 2026

# Contents

- 01** Introduction
- 02** Audit of the financial statements
- 03** Commentary on VFM arrangements
- 04** Other reporting responsibilities
- 05** Audit fees and other services
- 06** Audit of the Pension Fund
  
- A** Appendix A: Further information on our audit of the Council’s financial statements
- B** Appendix B: Further information on our audit of the Pension Fund’s financial statements

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

# 01

Introduction

# Introduction

## Purpose of the Auditor's Annual Report

Our responsibilities as the external auditor of the London Borough of Lambeth (the Council) are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The Code required us to issue a draft Auditor's Annual Report (AAR) by the end of November, summarising the work we had undertaken to date for the year ended 31 March 2025. We issued the draft report to the 27 November 2025 meeting of the Corporate Committee.

Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders. The remaining sections of the AAR outline how we have discharged our responsibilities and the findings from our work for 2024/25. These are summarised below.

### Opinion on the financial statements - Council



On 27 February 2026 we issued our audit report on the Council's statement of accounts. This enabled the Council to publish its audited statement of accounts by the 27 February 2026 backstop date, introduced by amendments to the Account and Audit Regulations. Our opinion on the financial statements is disclaimed. This means our audit report does not express an opinion on the financial statements, and we provide no assurance. Due to the significant delays the Council has experienced in publishing a complete and materially accurate draft statement of accounts we deemed there to be insufficient time to enable us complete the audit procedures necessary to obtain sufficient appropriate audit evidence on which we would base our opinion before the 27 February 2026 backstop date. We provide further details in Section 2.

### Opinion on the financial statements – Pension Fund



On 27 February 2026 we also issued our audit report on the Pension Fund statement of accounts. Our opinion on the financial statements was disclaimed. This means our audit report does not express an opinion on the financial statements, and we provide no assurance. We issued a disclaimed audit report because we have been unable to obtain sufficient assurance concerning the existence and completeness of current assets and current liabilities as at 31 March 2024 and 31 March 2025 and we did not have sufficient appropriate evidence over the completeness of transactions reported in the Fund Account before the 27 February 2026 backstop date. We provide further details in Section 2.

### Value for Money arrangements



In our audit report we have reported that we are not satisfied arrangements are in place for the Council to secure economy, efficiency and effectiveness in its use of resources. We have issued recommendations in relation to significant weaknesses in the arrangements that are relevant to the 2024/25 financial year. Section 3 provides our commentary on the Council's arrangements, the significant weaknesses identified and the associated recommendations.

### Reporting to the group auditor



We are yet to receive confirmation from the NAO that they have completed their audit of the Whole of Government Accounts (WGA). We will be unable to conclude our work until the NAO confirms that the group audit of the WGA has been completed and that no further work is required to be completed by us.

# Introduction

## Purpose of the Auditor's Annual Report - continued

### Wider reporting responsibilities

The Local Audit and Accountability Act 2014 outlines our additional powers and duties as appointed auditor of the Council. These include issuing a report in the public interest, issuing a written recommendation, application for a court declaration, issuing an advisory notice, issuing an application for judicial review or receiving any objections.

We issued written recommendations under paragraph 2 of Schedule 7 of the Local Audit and Accountability Act 2014 on 21 February 2025 in relation to the Council's challenging financial situation and governance of its wholly owned subsidiaries, the Homes for Lambeth (HfL) companies. Since February 2025, the Council has implemented a wide range of actions in response to our statutory recommendations and more broadly to improve its financial performance and resilience. The Council's end of November 2025 report on quarter 2 2025/26 financial monitoring and then the February 2026 quarter 3 reporting have shown that management actions are having a positive impact on the Council's financial challenges. However, we retain our significant concerns that the actions taken by the Council over the 12 months since we issued our statutory recommendations need to have a sufficient and sustained impact to keep pace with the Council's increasing financial challenges. On 23 February 2026, the Minister of State for Local Government and Homelessness communicated to the Council that they were minded to approve Exceptional Financial Support (EFS) to the financial years 2024/25, 2025/26 and 2026/27. This has restored the Council's general balances position for 2024/25 to 10% of net revenue budget as recommended by the Council's Section 151 officer. The Council has also relied on £46 million for the 2025/26 financial year and £20 million EFS to balance its 2026/27 budget. Furthermore, the Council has commissioned an options appraisal of the future of HfL, but the Council has yet to present a decision about the future of HfL.

For 2024/25 we have accepted two objections on the Statement of Accounts. We plan to perform appropriate procedures to consider each objection prior to issuing our audit certificate.



02

Audit of the financial statements

# Audit of the financial statements

## Our audit of the financial statements – Council

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. Amendments to the Accounts and Audit Regulations introduced a deadline for publication of local authorities audited 2024/25 financial statements.

Prior to issuing our audit report, the ISAs require us to determine whether we have obtained sufficient appropriate audit evidence based on the audit procedures completed at that date. We have not obtained sufficient appropriate audit evidence to enable us to express an opinion on whether the financial statements present a true and fair view and have been prepared, in all material respects, in line with the Code of Practice on Local Authority Accounting. Consequently, as required by the ISAs, we have modified our audit report and issued a disclaimed opinion. This means, in our audit report that was issued on 27th February 2026, we did not express an opinion on the Council's financial statements.

Our audit report details any additional power that we have exercised under the provisions of the Local Audit and Accountability Act 2014 during our audit of the accounts for the year ended 31 March 2025.

We include a summary of the fundamental audit procedures we have completed in Appendix A.

We have reported to management and to the Corporate Committee's 4 February 2026 meeting amendments that the Council has made to the draft accounts it published on 30 June 2025 and the revised draft accounts it published on 28 November 2025. We have since reported new significant control deficiencies which came to our attention as part of the audit procedures required to complete the audit in late February 2026.

The Council has made further significant amendments to the Statement of Accounts prior to the signing of the audit report due to the Minister of State for Local Government and Homelessness communicating to the Council on 23 February 2026 that they were minded to approve a capitalisation direction of £50 million for 2024/25 as part of its EFS to the Council. The Council applied the £50 million to capitalise expenditure in its 2024/25 year of account, resulting in material adjustments.

## Our audit of the financial statements – Pension Fund

We issued a qualified opinion on the Pension Fund's financial statements for the year ended 31 March 2024 on 28 February 2025 as we were unable to obtain sufficient appropriate audit evidence over sundry debtors of £53.1 million included as part of current assets, and sundry creditors of £14.1 million, in advance of the 2024 backstop date. We have been unable to obtain assurance over these balances as part of this year's audit. Despite significant work carried out by management, they have not been able to provide sufficient appropriate evidence prior to the backstop date to enable us to complete planned procedures to confirm the existence and completeness of the 31 March 2025 corresponding balances of sundry debtors (reported as nil) and current liabilities of £1.3 million.

In addition, the cash balance as at 31 March 2025 reported as part of current assets in the Net Assets Statement, includes a group of transactions worth £5.3 million which we have been unable to trace to appropriate supporting evidence prior to the backstop date.

Taken together, our inability to obtain sufficient assurance concerning the existence and completeness of current assets and current liabilities as at 31 March 2024 and 31 March 2025 means we do not have sufficient appropriate evidence over the completeness of transactions reported in the Fund Account.

We have therefore issued a disclaimer of opinion as a result of:

- the potentially material and pervasive effect of adjustments to the financial statements that might be necessary as a consequence of the matters described above; and
- the backstop date impeding our ability to complete the procedures necessary to determine whether material adjustments to the financial statements are required.

# Audit of the financial statements

## Qualitative aspects of the Council's accounting practices

The Council published draft statement of accounts on 30 June 2025 in line with the statutory deadline. Audit review identified the omission of an Annual Governance Statement and the Pension Fund financial statements. Our review also identified several notes to the accounts were incomplete, did not cast, or were not internally consistent.

As a result, the Council published an amended draft statement of accounts, that included an Annual Governance Statement and the Pension Fund financial statements on 16 July 2025, restarting the public inspection period from this date. Audit review identified several notes to the accounts were still incomplete, did not cast, or were not internally consistent with other disclosures in the accounts.

The Council undertook a further assessment of the draft statement of accounts and provided us with a revised draft on 16 September 2025. Audit review identified several technical challenges with the draft accounts. We concluded that they were not of sufficient quality to support commencing audit procedures.

The Council carried out further work to address the technical challenges we highlighted and, with the support of external assurance and oversight, plan to publish a revised draft statement of accounts in November 2025. As these draft accounts presented several material changes to the version published on 16 July 2025, the Council opened a new public inspection period.

The Council acknowledged that the financial statements required review and added dedicated resource to the finance team. The Council also sourced independent assurance in the form of experienced public sector finance professionals to support the finance team's work.

## Significant difficulties during the audit

We have communicated the following significant matters to management:

- **Qualitative aspects of the Council's accounting practices:** As outlined above, we faced significant difficulties in determining that the Council had produced draft accounts that were of sufficient completeness and quality to enable us to commence the audit.

- **Council capacity and priorities:** the finance team has faced competing priorities during 2024/25, due to their work on the Council's financial challenges and the need to prepare the draft accounts. The finance team have also had capacity challenges. As a result, during the early stages of our audit, we experienced response times to queries and data requests that were significantly slower than those agreed. The Council redirected resources and added additional capacity to meet the agreed response times moving forwards.
- **Implications of the backstop arrangements:** In our Audit Strategy Memorandum, issued in July 2025, we outlined that the Council's delays in publishing a complete draft statement of accounts would impact our ability to meet agreed audit timelines. Having initially planned to complete a full audit of 2024/25 balances and, if possible, commence rebuilding assurance procedures on 2023/24 balances, the delays in the Council providing a suitable draft statement of accounts to support starting audit procedures resulted in us applying the government's backstop requirements. Appendix A outlines the procedures we have deemed it necessary to complete to support us in discharging our responsibilities as the appointed auditor for 2024/25.
- **Correspondence from local electors:** we have received and dealt with a significant level of correspondence from local electors. We have received and responded to statutory questions raised by electors and received objection notices from three electors, two of which we have accepted as eligible.

As a result of the significant matters, we reported above, during 2024/25 we agreed to increase the frequency of engagement with the Council's Section 151 Officer and hold at least quarterly update meetings with the Chief Executive and the Leader of the Council.

# Audit of the financial statements

## Other reporting responsibilities

Reporting responsibility	Outcome
<b>Narrative Report</b>	We do not intend to perform detailed procedures on the Narrative Report.
<b>Annual Governance Statement</b>	We have performed procedures to confirm the Annual Governance Statement complies with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting. These procedures enabled us to form a response to an objection we accepted from a local elector. We are yet to complete are reporting on the objection.

# 03

Our work on Value for Money  
arrangements

VFM arrangements

Overall Summary



# VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

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

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

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

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

Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

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

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

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

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

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

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

We outline the risks that we have identified and the work we have done to address those risks later in this report.

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

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

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

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

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

# VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	New risks of significant weakness identified in 2024/25?	New significant weaknesses and recommendation in 2024/25?	Significant weakness identified in previous years followed up in 2024/25?	Other recommendations in relation to other matters made in current year?
Financial sustainability	14	No	No	Yes – see previous weaknesses identified and follow up on page 29 and page 30	No
Governance	18	Yes – see risk 1 and work performed on page 17 and risk 2 and work performed on page 18	Yes – see recommendation 1 on page 26 and recommendation 2 on page 27	Yes – see previous weakness identified and follow up on page 31	No
Improving economy, efficiency and effectiveness	24	No	No	Yes – see previous weakness identified and follow up on page 31	No

# VFM arrangements

## Financial Sustainability

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



# VFM arrangements – Financial Sustainability

## Overall commentary on financial sustainability

### Planning arrangements to identify financial pressures

Each year, the Council prepares a budget for the upcoming year and a Medium-Term Financial Strategy (MTFS) for the following four years. The budget outlines the Council's planned income and expenditure for the upcoming year, with the MTFS outlining the Council's rolling financial plan in future years to reflect the impact of budget decisions and identified budget gaps. Prior year outturn is used to identify potential budget opportunities for savings. Areas of potential savings are discussed with budget holders and savings figures are agreed with the Finance team. The MTFS considers emerging issues, such as changes in funding arrangements, that will have an impact on the Council's future budgets.

We previously identified a significant weakness in the Council's arrangements in relation to the Council identifying financial pressures and building them into financial plans as part of our 2023/24 audit. The Council's 2024/25 outturn was an overspend of £60.5m driven largely by overspends in Temporary Accommodation (TA) of £35m and corporate items.

In 2023/24 TA overspent £10.5m against a budget of approximately £27m. Despite this, the 2024/25 budget included growth of only £3.1m with a total budget of £30m. By the end of 2024/25 TA spend was £65m. The budget for TA in 2025/26 is £42m and quarter 1 budget monitoring forecasts an overspend of £19m for the year.

The adverse variance on corporate items at the end of 2024/25 was driven by a £15.6m overspend on interest payable (driven in part by the cost of servicing debt in relation to capitalisation directions, totalling £175m for the Council's redress scheme) and £14.4m unbudgeted bad debt write off. Both items are reasonably predictable, with the Council having considerable data on debt levels and prevailing rates of interest to forecast interest payable and total debts and historic rates of collection to forecast debt write offs. Based on their predictable nature, it is our view that variances to budget for these items should not be significant.

During 2024/25 the Council prepared its budget for 2025/26 and MTFS for 2026/27 – 2028/29, which were both approved by the full Council in March 2025. A MTFS for 2026/27 – 2029/30 was prepared and presented to the Council in July 2025 with updated assumptions and forecasts that increased the budget gap by £31.5m. The revised MTFS cites updated assumptions in relation to funding levels based on the Spending Review, finding reform and updated cost assumptions with

respect to service pressures and the cost of Council borrowing, not included in the approved budget for 2025/26. These revisions include measures to address budgeting issues identified as part of the 2024/25 accounts closedown for interest and debt write-offs and are now incorporated in the Council's financial plans for 2026/27 – 2029/30. Considering the 2024/25 arrangements, we have determined the weakness in arrangements to identify financial pressures and build them into plans identified in 2023/24 remained for 2024/25.

### Plans to bridge funding gaps and finding achievable savings

The Council's 2025/26 budget and MTFS were approved by the full Council in March 2025. The 2025/26 budget was balanced only with the inclusion of £46.3m of savings. The MTFS identified the annual gaps to be bridged with savings over its lifetime. The updated July 2025 MTFS includes updated assumptions for funding and pressures, resulting in the following updated gaps:

MTFS Year	2026/27	2027/28	2028/29	2029/30	Total
Initial gap (£m)	25.6	17.5	10.8	-	52.8
Revised gap (£m)	49.9	9.1	16.2	9.1	84.3
Additional (£m)	24.3	(8.4)	5.4	9.1	31.5

Key to achieving the Council's savings plans in the 2025/26 budget and over the life of the MTFS is the Target Operating Model (TOM). The TOM is a programme of service reconfiguration and reform being implemented to deliver £15.4m of savings in 2025/26 and a total of £30m of savings over the life of the entire MTFS.

The most recent assessment of progress against savings required for 2025/26 identified a forecast saving of £35.2m against the target of £46.3m of savings for the year. The TOM is forecast to deliver a total saving of £7.5m in 2025/26, against a budgeted saving of £15.4m for the year.

The Council has, over recent years, recognised the scale of the financial challenge facing it and has included a significant savings target in the budget set annually. The Council has had a track record of failing to deliver these targets, rolling the shortfall forward each year compounding the scale of the problem. The following is the Council's track records of savings delivery:

# VFM arrangements – Financial Sustainability

## Overall commentary on financial sustainability - continued

Year	2022/23	2023/24	2024/25	Total
<b>Planned savings (£m)</b>	11.4	17.3	26.0	54.7
<b>Delivered savings (£m)</b>	9.5 (83%)	14.6 (84%)	23.8 (92%)	47.9 (88%)

we have previously identified a weakness in the Council's arrangements to bridge funding gaps by identifying and delivering savings. While we acknowledge significant work is being undertaken in 2025/26, based on the above findings, we determine that the weakness is still present for 2024/25.

### Ensuring financial plans support the sustainable delivery of services and consistency with other Council plans

The Council ensures that financial plans are closely aligned with the its strategic objectives and statutory obligations. The development of the MTFS is a Council-wide process involving all Directorate teams. There are regular meetings between different services and finance to ensure that there is alignment of financial plans with workforce, capital, and operational strategies.

Key to ensuring the financial plan is consistent with other plans is consideration of the Lambeth 2030 plan when setting budgets. All financial plans are reviewed and scrutinised by the various committees of the Council in line with the ambitions and requirements of that plan.

A particular source of financial challenge for the Council has been tackling homelessness and reducing reliance of residents on temporary accommodation. In February 2025, the Council established a Housing Assurance Board comprised of both members and officers. The Board is tasked with ensuring the savings and cost reductions identified still enable the Council to meet its statutory obligation to provide a service that meets the needs of residents. The Board has had a limited impact to date in tackling overspends in temporary accommodation.

### Managing risk to financial resilience

The Council carries out regular risk assessments to identify potential financial risks, including unplanned changes in demand, economic fluctuations and policy changes. These assessments are then used to feed into the Council's key risk reporting, that is reported to the Corporate Committee quarterly. Financial risks are considered as part of this register, with financial resilience due to low

reserve balances being a reported risk.

Reserves form a key part of the Council's armoury for managing risks to financial resilience. The Council holds earmarked reserves for specific purposes, and most importantly holds general reserves to manage unplanned expenditure and shocks. We previously reported a weakness in the Council's arrangements for managing risks to financial resilience due to rapidly decreasing general fund and HRA reserves. The Council's usable reserves (in £m), based on unaudited figures, have fallen significantly over the last 3 years:

Year	2022/23	2023/24	2024/25
<b>General fund:</b>			
<i>Earmarked</i>	127.3	105.3	65.3
<i>Earmarked (restricted)</i>	17.5	16.5	9.8
<i>Capital purposes</i>	96.8	89.4	101.4
<i>Unallocated</i>	43.8	30.0	5.0
<b>Housing Revenue Account:</b>			
<i>Major repairs</i>	-	6.8	-
<i>Earmarked</i>	18.1	14.4	5.7
<i>Unallocated</i>	8.8	-	-
<b>Total</b>	<b>312.2</b>	<b>262.4</b>	<b>187.1</b>

During 2024/25, the Council continued to rely on reserves to manage overspends. The 2025/26 budget forecasts the further use of all remaining unallocated general fund reserves and does not include provision for replenishing reserves. The latest MTFS indicates the general fund balance will be restored to 10% of the net annual budget (approximately £45m), the minimum acceptable level required identified by the Corporate Director of Finance and Governance, at the end of 2028/29 if the Council delivers £84.3m of savings in the same period. Whilst acknowledging the plans to replenish reserves, we have determined the previously identified weakness in relation to identifying and managing risk to financial resilience to still exist in 2024/25.

# VFM arrangements – Financial Sustainability

## Overall commentary on financial sustainability - continued

### Overall view on arrangements in relation to financial sustainability

We have identified significant weaknesses in the Council’s arrangements to secure value for money in relation to financial sustainability. These are summarised below.

Weakness title (year identified)	Arrangements impacted	Summarised finding
Resilience to future pressures (2022/23)	How the Council identifies and manages risks to financial resilience.	The 2025/26 budget does not replenish reserves to the minimum level required.
Budgeting for growth and achievable savings (2023/24)	<p>How the Council identifies all significant financial pressures and builds them into its short and medium-term plans.</p> <p>How the Council plans to bridge its funding gaps and identified achievable savings.</p>	<p>2025/26 financial reporting identifies projected overspends in the Council's demand-led services.</p> <p>The 2025/26 budget and MTFS committed the Council to more savings than it has previously delivered, without plans for achieving them at the time of their approval.</p>

# VFM arrangements

## Governance

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



# VFM arrangements – Governance

## Risks of significant weaknesses in arrangements in relation to governance

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p><b>Governance – gaining assurance over the effective operation of internal controls</b></p> <p>During the year, Internal Audit completed 17 reviews across the Council, with 42% receiving limited assurance opinions, 54% reasonable and 4% substantial. This resulted in the following limited assurance opinion being issued by the Head of Internal Audit for 2024/25 in July 2025: <i>‘Internal Audit can provide limited assurance on the adequacy and effectiveness of the Council’s governance, risk management, and internal control arrangements.’</i></p> <p>The Head of Internal Audit report also notes that there are a considerable number of high and medium priority management actions overdue for implementation. The Council’s target is for 85% of these actions to be implemented within agreed timeframes but in 2024/25 only achieved this for 54% of agreed actions.</p> <p>We consider the above to be evidence of a risk of significant weakness in the Council’s arrangements for monitoring and assessing risk and ensuring the effective operation of internal controls.</p>	<p><b>Work undertaken</b></p> <p>We have reviewed the Head of Internal Audit opinion and concluded the work completed during 2024/25 covered a broad range of the Council’s directorates and services. Review of the limited assurance reports has highlighted that most of the limited assurance have been issued due to officers failing to comply with reasonably designed systems of internal control. The limited assurance opinions impact a range of Council directorates and are not isolated to individual service areas.</p> <p>The Head of Internal Audit Opinion highlights that officers at the Council are failing to implement medium and high priority actions within agreed timeframes to address deficiencies in internal control identified by the internal audit service, with only 54% of actions being implemented within agreed timeframes against a target of 85%. Discussions with the Head of Internal Audit and review of progress updates following the 2024/25-year end do not indicate a sufficient improvement in implementation rates. We also have concerns that 85% is set as the target for implementation of high and medium priority management actions to be implemented within agreed timeframes. It is our view that the Council should target all management actions being implemented within agreed timeframes to support the effective operation of internal controls.</p> <p>In addition, the current Corporate Director of Finance and Governance, who joined the Council in December 2024, determined a need to procure additional external advisory services to seek assurance over the MTFS process and achievability of savings plans. The Corporate Director of Finance and Governance recognised the risks in relation to producing a robust MTFS and assessing the achievability of savings had increased significantly since the internal audit plan was prepared due to the further deterioration of the Council’s financial position. These services have been procured externally to provide independent assurance, the identification of improvements and to ensure the improvements are delivered at pace.</p> <p><b>Results of our work</b></p> <p>We consider the findings of internal audit, failure to implement agreed actions in a timely manner and the need for the Section 151 officer to seek additional assurance work in key risk areas to be evidence of a significant weakness in the Council’s arrangements for monitoring and assessing risk and ensuring the effective operation of internal controls.</p>

# VFM arrangements – Governance

## Risks of significant weaknesses in arrangements in relation to governance - continued

Risk of significant weakness in arrangements	Work undertaken and the results of our work																																			
<p><b>Governance – ensuring appropriate processes are in place to support timely and accurate financial reporting to support budgetary control</b></p> <p>The Council's draft Statement of Accounts initially published on 30<sup>th</sup> June 2025 in line with the statutory deadline was incomplete. The statements published did not include the annual governance statement or the financial statements for Lambeth Pension Fund for which the Council is the administering authority.</p> <p>The Council published an updated draft statement of accounts that included these two missing elements on 16 July and re-started the public inspection period giving interested parties a window to review those accounts and the supporting records, before raising matters with the Council or the auditor. However, this second set of accounts was of poor quality with inconsistencies and gaps in the notes to the accounts as well as arithmetic and other technical errors.</p> <p>Following further work, the Council plans to publish a second revised set of draft financial statements in November 2025, almost 5 months after the statutory deadline.</p> <p>We consider the above to be evidence of a risk of significant weakness in the Council's arrangements to produce timely and accurate financial reporting.</p>	<p><b>Work undertaken</b></p> <p>We have reviewed the draft statements of accounts published by the Council and confirmed there are material movements between versions. Whilst caveated, the Corporate Director of Finance and Governance has signed and dated the Statement of Responsibilities within each version, approving the accounts for publication. Whilst the Corporate Directorate has added included some specific caveats, they have confirmed that the accounts provide a true and fair view of the Council's financial position.</p> <p>Having identified significant issues with Council's accounts preparation, we have also considered if wider financial monitoring reports to members and budgeting is subject to the same issues. The Council reported the following deficit/(surplus) forecast outturns to Cabinet during the year:</p> <table border="1" data-bbox="1039 639 2466 821"> <thead> <tr> <th>Report and date</th> <th>Total</th> <th>Housing</th> <th>Adult</th> <th>Children</th> <th>Corporate</th> <th>Other</th> </tr> </thead> <tbody> <tr> <td>Q1 – October 2024</td> <td>34.3</td> <td>28.2</td> <td>7.5</td> <td>4.6</td> <td>(7.0)</td> <td>1.0</td> </tr> <tr> <td>Q2 – January 2025</td> <td>32.3</td> <td>27.7</td> <td>7.5</td> <td>4.6</td> <td>(7.0)</td> <td>(0.5)</td> </tr> <tr> <td>Q3 – February 2025</td> <td>34.7</td> <td>31.1</td> <td>8.4</td> <td>4.3</td> <td>(7.0)</td> <td>(2.1)</td> </tr> <tr> <td>Q4 – July 2025</td> <td>60.5</td> <td>35.4</td> <td>2.7</td> <td>0.1</td> <td>28.4</td> <td>(6.1)</td> </tr> </tbody> </table> <p>The table above shows the final Q4 outturn was considerably different to forecast outturn reported throughout the year. Corporate item overspends were driven entirely by interest payable and debt write off overspends that were only identified as part of the accounts close process. These items had not been appropriately considered in the initial budget or monitoring reports throughout the year.</p> <p>In July 2025, the latest MTFs with updated assumptions in relation to funding levels based on the Spending Review and updated cost assumptions with respect to service pressures and the cost of Council borrowing which were not included in the MTFs approved in March 2025. These items increased the budget gap by £31.5m.</p> <p><b>Results of our work</b></p> <p>We consider the findings of our work to be evidence that members were not presented with accurate financial reporting during the year and the Council has not had adequate arrangements in place to prepare its statement of accounts. This represents significant weaknesses in the Council's arrangements to produce timely and accurate financial reporting to support budgetary control.</p>	Report and date	Total	Housing	Adult	Children	Corporate	Other	Q1 – October 2024	34.3	28.2	7.5	4.6	(7.0)	1.0	Q2 – January 2025	32.3	27.7	7.5	4.6	(7.0)	(0.5)	Q3 – February 2025	34.7	31.1	8.4	4.3	(7.0)	(2.1)	Q4 – July 2025	60.5	35.4	2.7	0.1	28.4	(6.1)
Report and date	Total	Housing	Adult	Children	Corporate	Other																														
Q1 – October 2024	34.3	28.2	7.5	4.6	(7.0)	1.0																														
Q2 – January 2025	32.3	27.7	7.5	4.6	(7.0)	(0.5)																														
Q3 – February 2025	34.7	31.1	8.4	4.3	(7.0)	(2.1)																														
Q4 – July 2025	60.5	35.4	2.7	0.1	28.4	(6.1)																														

# VFM arrangements – Governance

## Overall commentary on governance

### Risk management and monitoring arrangements

The Council outlines its approach to risk management in its formal Risk Management Strategy and Policy. The document outlines the Council's risk management aims, objectives, challenges and benefits. When a risk has been identified and rated, the Council will adopt a risk response based on the nature of the risk. The Council's response is to either: Tolerate, Treat, Transfer, or Terminate.

A key output of the policy is the requirement for the Council to maintain a risk register which must be reported to the Corporate Committee quarterly. Top risks are subject to regular monitoring and review at management team meetings and management board, and Corporate Committee have "risk spotlight" items on each agenda. The risk spotlight items provide an opportunity for Members to gain assurance and a deeper understanding of risks and controls directly from the risk owners and key teams.

The Council has an independent, in-house Internal Audit & Counter Fraud Service. An annual audit plan is prepared each year that ensures coverage of areas assessed as high risk are reviewed. The plan for 2024/25 did not include budget setting and savings. The plan also balances ensuring coverage or areas across the business cyclically as well as leaving space for thematic reviews as the need arises.

During the year, the internal audit completed 17 Council only opinions, with 42% receiving limited assurance opinions, 54% reasonable and 4% substantial. This resulted in the following opinion being provided by the head of internal audit '*Internal Audit can provide limited assurance on the adequacy and effectiveness of the Council's governance, risk management, and internal control arrangements.*' The report also notes that there are a considerable number of high and medium priority actions overdue. The Council's target is for 85% of these actions to be implemented within agreed timeframes but only achieved this for 54% of agreed actions. The Corporate Committee is regularly updated on the progress of work against the internal audit plan. As a result, we have identified a significant weakness in the Council's arrangements for monitoring and obtaining assurance over the operation of internal controls.

The Council also has a clearly defined counter fraud strategy that outlines the Councils approach to preventing and detecting fraud. Progress against the strategy is reported on quarterly to the corporate Committee.

### Budget setting, control and processes for taking corrective action

The Council's draft Statement of Accounts initially published on 30th June 2025, in line with the statutory deadline, was incomplete. The statements did not include the annual governance statement or the financial statements for Lambeth Pension Fund for which the Council is the administering authority.

The Council published an updated draft statement of accounts that included these two missing elements on 16 July and re-started the public inspection period giving interested parties a window to review those accounts and the supporting records, before raising matters with the Council or the auditor. However, this second set of accounts was of poor quality with inconsistencies and gaps in the notes to the accounts as well as arithmetic and technical errors.

Following substantial further work (including sourcing independent external assurance), the Council plans to publish a second revised set of draft financial statements in November 2025, almost 5 months after the statutory deadline.

Within the draft statement of accounts, the Corporate Director of Finance and Governance has included caveats in the Statement of Responsibilities in relation to their length of time in post at the point of certification of the draft accounts – '*Based on the detailed work undertaken since my appointment in December 2024, the statement of accounts for 2024/25 have been updated with material transactions and balances either confirmed or restated as necessary. Whilst I cannot comment on the quality of the financial processes in operation prior to my appointment, I am satisfied that sufficient evidence has been obtained to support the overall Balance Sheet and the overall year-end position on balances and reserves.*' However, all 3 versions of the published draft accounts are certified as presenting a true and fair view of the Council's financial position.

The Council produces quarterly budget monitoring reports that are presented at Corporate Committee, Cabinet and full council meetings. The reports were presented throughout the year, but the final outturn in Q4 varied significantly to the forecasts reported throughout the year, driven entirely by interest payable and debt write off overspends that were only identified as part of the accounts close process.

The Council updated the MTFS to account for updated assumptions in relation to funding levels based on the Spending Review and updated cost assumptions with respect to service pressures and the cost of Council borrowing, not included in the March 2025 MTFS.

# VFM arrangements – Governance

## Overall commentary on governance - continued

As a result of the above, we have identified a significant weakness in the Council's arrangements for ensuring appropriate processes are in place to support timely and accurate financial reporting to support budgetary control.

### Decision making arrangements

Items for decision are subject to discussion and scrutiny prior to approval. The Council is transparent in its decision making. Key decision notices are produced and made publicly available via the Council's website. This log of published notices also contains officer decisions that have been approved under the scheme of delegated authorities.

The Council also has an overview and Scrutiny Committee. As part of its function, this Committee is in place to challenge decisions taken by the Council and provide transparency of this challenge.

As a result of the Kerslake review, published in November 2022, into affordable housing in Lambeth, we reported a significant weakness in relation to the Council's arrangements for informed decision making. The review report identified several oversight issues and ultimately highlighted shortfalls in the Council's abilities to exercise oversight and make decisions in relation to the Homes for Lambeth (HfL) subsidiaries considering their extremely poor performance. We first reported this significant weakness in arrangements as part of our 2021/22 Auditor's Annual Report.

The Council have prepared an HfL action plan that was reported to the HFL Group Board in December 2024. Following subsequent approval, key positive actions have been taken that include:

- Variation of the shareholders agreement to ensure the company board are entirely Council comprised except for HfL Homes which must be independent for regulatory reasons.
- Company board meetings three times a year, supported by annual HfL business plan.
- Appointment of an interim managing director seconded from the Council.
- Cabinet member endorsement and ownership of the HfL business plan.
- Establishment of a Housing Delivery Board to directly oversee company activity that has council corporate director membership.
- Fortnightly operational HfL management meetings led by the managing director.

- Externally provided legal expertise.

However, the Council is yet to publish a formal plan for the future of the companies. External consultants have been commissioned to undertake a full options appraisal of HFL to inform the decision on the future of the companies. Their work is ongoing. The Council's work to address the key recommendation of the Kerslake report is still ongoing, representing a significant weakness in the Council's arrangements.

### Ensuring legislative and regulatory requirements are met

As part of its Constitution, the Council has adopted both a Members and an Officers Code of Conduct along with a Local Code of Corporate Governance designed to promote the highest standards of behaviour amongst Members and officers. Mandatory training on the Code is provided by the Monitoring Officer, who also processes complaints which allege a breach of its provisions. An annual report of complaints received is taken by the Monitoring Officer to the Council's Standards Committee.

All committee meeting agenda papers contain as the first item of business the requirement for Members to declare any interests they may have in the business to be conducted.

The Council also has established policies for both Counter Fraud and Corruption and Standards of Business Conduct. These have been prepared in accordance with the Bribery Act and central government guidance on the risk management of conflicts of interest. Employees are informed of changes via the Council's intranet. Senior officers and members are required to make declarations throughout the year. These policies, along with all other policies officers and members are required to adhere to, are included within the Council's constitution.

# VFM arrangements – Governance

## Overall commentary on governance - continued

### Overall view on arrangements in relation to governance

We have identified significant weaknesses in the Council’s arrangements to secure value for money in relation to governance. These are summarised below.

Weakness title (year identified)	Arrangements impacted	Summarised finding
Homes for Lambeth – informed decision making and using information about performance to improve service delivery (2021/22)	How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee	The companies continue to report losses and the key recommendation of the Kerslake review is outstanding.
Gaining assurance over the effective operation of internal controls (2024/25)	How the Council monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	The 2024/25 Head of Internal Audit opinion provided limited assurance over the adequacy of the Council’s risk management and internal control arrangements.
Ensuring appropriate processes are in place to support timely and accurate financial reporting to support budgetary control (2024/25)	How the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting requirements; and ensures corrective action is taken where needed,	The Council published incomplete and inaccurate accounts and provided members with inaccurate financial monitoring reports.

# VFM arrangements

## Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on improving economy, efficiency and effectiveness

### Assessing performance and evaluating service delivery

The Council has an established performance monitoring framework, which is used to identify areas for improvement. Key to this monitoring is the quarterly outturn to budget reports submitted to Cabinet. These reports hold a detailed breakdown of spend-to-date against budgets. At each year end the Cabinet are presented with the outturn report showing the Council's final position against its initial budget. The Council also report detailed savings and growth trackers to full Cabinet annually as part of this process.

The Council undertook a LGA peer challenge review in 2024, and the findings of this report identified several recommendations for the Council to address. The key recommendations from the report were:

- Work quickly to provide clarity on the full revenue implications of the HRA and the winding down of Homes for Lambeth.
- Take a collective and transparent approach to the organisation's financial challenges; building on difficult decisions taken already, go further and faster on savings and transformation and consider all options in the ongoing discussions with Government.
- Maintain pace on developing the One Lambeth transformation approach and work to clarify roles and responsibilities across the corporate centre and services.
- Be clear on how the organisation needs to change and what that means for services and organisational structure, working towards a new target operating model. The Council should use this as an opportunity to take members, staff, partners and residents with it in creating a vision for the future of the organisation.
- Building on the success of health integration and broader partnership working, consider how you integrate people focused services to manage demand more effectively and drive improvements in resident experience.
- Ensure the improved governance put in place to oversee improvement in children's services and housing is replicated in corporate committees – consider external representation on your Housing Improvement Board and a Centre for Governance and Scrutiny review of scrutiny.
- Refresh the member development offer to support members and committee to deliver their roles

in increasingly challenging circumstances.

- Maintain strong leadership on climate justice but prioritise the actions that will have the greatest impact on climate change and net zero and ensure costs are reflected in the Medium-Term Financial Plan.
- Continue to embed significant progress made in strengthening organisational culture.

As a result, the Council prepared an action plan that was presented to various committees in March 2025, outlining clear actions, and ownership of actions, that the Council would apply to address the findings. The Council is currently working this this action plan and the follow up report received in 2025/26 acknowledges positive steps are being taken to fully implement the key recommendations.

The Council review their corporately held key performance indicators (KPIs) and refresh them each year to ensure they meet the requirement of each directorate's business plans. The resulting KPI and business plan deliverables output is incorporated into the Outcomes Framework for the next year and will also inform wider corporate reporting.

As a result of the Kerslake review, published in November 2022, into affordable housing in Lambeth, we reported a significant weakness in relation to the Council's arrangements for using information to evaluate service delivery because the Council failed to take appropriate and decisive action. The Council accepted all the recommendations of the Kerslake review, with the key one being to bring the activities of HFL back in-house. While significant steps have been taken, the Council is still yet to formalise a plan for the future of the companies. External consultants were commissioned in early 2025 to assess options for bringing all the activities of HFL back in-house. We have concluded the significant weakness is still present in 2024-25. It is likely the in-housing of the operation of HFL will have significant financial implications for the Council.

### Effective partnership working

Partnerships are managed on a case-by-case basis, but all arrangements follow the same general principles. The Councils approach to partnerships is as follows:

- Joint management teams at partnership lead level where organisational / department plans are agreed.

# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on improving economy, efficiency and effectiveness

- Areas of formal agreement of resources and outcomes i.e. Better Care Fund; Mental Health Alliance. These require Cabinet Member sign-off and go to other Member meetings.
- Key areas of performance and development shared at Lambeth executive level as part of performance boards or relevant sub-committees.
- Formal agreements outlining the split of costs between partners.

### Procurement and commissioning services

The Council's procurement activities follow best practices and professional standards, ensuring transparency, fairness, and competitiveness and adopts the Cabinet Office Procurement Policy Notes as good practice. Significant activity, in the form of staff changing and procedure updates have been undertaken by the Council during the year to ensure compliance with the Procurement Act 2023 that became effective in February 2025.

All procurement staff are accredited Advanced Practitioners, and the majority are accredited Contract Managers. Assessment of expected benefits is measured through the Procurement Digest – a quarterly publication that analyses spend data and purchase order compliance.

Contracts awarded to third party suppliers have contract managers assigned to them to ensure the delivery promised in the procurement process is delivered by the supplier. The Council have also increased training around procurement to its staff.

The council has an electronic Contract Management System (eCMS) to monitor contracts and ensure they are getting the best value and service from the procured services. A Procurement Hub has been created to provide support and guidance to departments.

### Overall view on arrangements in relation to governance

We have identified a significant weakness in the Council's arrangements to secure value for money in relation to governance. This is summarised below.

Weakness title (year identified)	Arrangements impacted	Summarised finding
Homes for Lambeth – using information about performance to improve service delivery (2021/22)	How the Council evaluates the services it provides to assess performance and identify areas for improvement	The companies continue to report losses and the key recommendation of the Kerslake review is outstanding.

# VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



# VFM arrangements - Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement

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

Identified significant weakness in arrangements	Reporting criteria	Recommendations for improvement
<p><b>Governance – gaining assurance over the effective operation of internal controls</b></p> <p>1 The Head of Internal Audit issued a limited assurance opinion over the Council's governance, risk management, and internal control arrangements in place during 2024/25. Review of the limited assurance opinions highlights that most have been issued due to officers failing to comply with reasonably designed systems of control. The limited assurance opinions impact upon a range of Council directorates and are not isolated to individual service areas. The report highlights that officers are failing to implement medium and high priority actions within agreed timeframes to address identified deficiencies in internal control, with only 54% being implemented within agreed timeframes against a target of 85%.</p> <p>We consider the findings to be evidence of a significant weakness in the Council's arrangements for governance, specifically monitoring and assessing risk and ensuring the effective operation of internal controls.</p>	<p>Governance</p>	<ol style="list-style-type: none"> <li>1. The Council should take immediate action to implement the outstanding 2024/25 Internal Audit recommendations and put in place arrangements to monitor the implementation of future Internal Audit recommendations.</li> <li>2. The Council should ensure officers are trained on the importance of adhering to established systems of internal control.</li> </ol>

### The Council's response and outline of actions taken to date

The Council has prioritised actions to significantly improve the response to internal audit reports and the implementation of agreed recommendations. While the completion rate of agreed actions (54%) in 2024/25 fell short of the 85% target, this was largely due to capacity constraints and competing priorities during a particularly challenging financial year, rather than a lack of due weight and attention being given to internal control weaknesses. The Council has already taken steps to improve tracking and accountability of recommendations, including:

- Enhanced monitoring and reporting to Assurance Board and the Corporate Committee - Escalation of overdue actions to Corporate Directors.
- Direction from the Chief Executive to all Corporate Directors requiring completion of overdue actions by the 31 December 2025.

To further strengthen the arrangements in relation to internal Audit the following measures have also been put in place:

- Training and awareness raising for officers on the role, responsibilities and value of internal audit and the importance of adhering to established systems of internal control.
- Regular attendance of Internal Audit at Directorate Leadership Team meetings.
- Targeted support for services with persistent implementation delays.
- The requirement for Directors to attend Assurance Board and Corporate Committee to provide explanations and updates on progress for overdue actions.
- A tiered approach to implementation of recommendations:
  - Critical actions: 100% implementation within agreed timescales.
  - High/Medium-risk actions: 85–90% implementation target, with flexibility for justified delays
  - Where actions cannot be delivered on time, services must provide a documented rationale and revised timeline, subject to approval and oversight by Internal Audit, Assurance Board and Corporate Committee.
- Regular reporting to senior leadership and the Corporate Committee including both implementation rates and exception cases, ensuring transparency and accountability.

# VFM arrangements - Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement - continued

Identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement
<p><b>2</b></p> <p><b>Governance – ensuring appropriate processes are in place to support timely and accurate financial reporting to support budgetary control</b></p> <p>The Council has faced significant challenges in preparing its draft Statement of Accounts for 2024/25. The first draft, published on 30th June 2025 omitted an Annual Governance Statement and Pension Fund financial statements. The second version published on 16th July 2025 contained incomplete notes, casting errors, internal inconsistency, and indicators of technical errors. The Council plans to publish a final, materially different draft in November 2025.</p> <p>In addition to issues with preparing its statutory financial statements, it was also identified that the basis for the Council’s budget monitoring was not ensuring a complete picture of the Council’s financial position. The quarter 1, 2 and 3 financial performance monitoring reports to Cabinet and full Council consistently forecast a total overspend for the 2024/25 year of between £30m - £35m. The final outturn presented in July 2025 reported a total overspend of £60.5m. The overspend was driven by interest payable and debt write-offs that had not been considered in the initial budget or monitoring reports throughout the year.</p> <p>The Council’s updated July 2025 MTFS identified key pressures had not been included in the March 2025 MTFS. The Council’s July 2025 considers updated assumptions in relation to funding levels based on the Spending Review and updated cost assumptions with respect to service pressures and the cost of Council borrowing. This increased the budget gap in the MTFS by £31.5m, from £52.8m to £84.3m.</p> <p>We consider the findings to be evidence of a significant weakness in the Council’s arrangements for governance, specifically ensuring appropriate processes and systems are in place to support budgetary control and support its statutory financial reporting requirements and how the Council approaches and carries out its annual budget setting process.</p>	<p>Governance</p>	<p>The Council should review and improve its accounts preparation, financial performance monitoring and budgeting setting processes to ensure they are appropriate to support timely and accurate financial reporting.</p>

**The Council’s response and outline of actions taken to date – see overleaf**

# VFM arrangements - Identified significant weaknesses and our recommendations

## The Council's response and outline of actions taken to date

The Council has recognised the need to review and significantly improve its accounts preparation as part of its approach to regaining assurance from the external auditor. The Council has agreed a set of actions to ensure this happens as quickly as possible and improvements have been seen in the arrangements now in place. A dedicated team focussing solely on accounts preparation and the required improvements is currently being established with additional senior oversight, well in advance of the 2025/26 closing of accounts process. The capacity and focus of the existing team have been strengthened and they are working hard to simultaneously prioritise the audit of the 2024/25 accounts and commence preparations for the 2025/26 accounts and subsequent audit. A comprehensive review of existing practices and processes will inform the Accounts and Audit Improvement Plan that is currently being drafted, which will be formally monitored by and reported to Assurance Board and Corporate Committee.

Financial performance monitoring and reporting have been significantly and comprehensively enhanced since 2024/25. The format and content of the quarterly Financial Performance reports have been reviewed to provide information clearly and transparently to ensure informed decision making, sufficient focus on the key financial information and analysis and to set out clearly the actions taken and planned to improve the Council's financial position. The report provides a comprehensive assessment of the Council's financial position, giving transparency and oversight of the Council's finances. It identifies and explains the Council's budget, forecast expenditure, income and variances against budget for the financial year. It provides an overview of the financial position, as well as commentary on each directorate, with explanations for key over/underspends and the mitigating management actions being taken and planned to bring down the forecast overspend by the end of the financial year. The report also includes a year-end forecast and commentary for the Housing Revenue Account, the Dedicated Schools Grant and the capital programme. The report contains an update on the delivery of savings for 2025/26, providing an overall summary and detailing those areas where there are risks to the savings being delivered.

Monthly Financial Performance reports are presented to Directorate Leadership Teams. A savings tracker is in place, with responsible officers required to update progress on a monthly basis. All savings are monitored monthly through the Finance & Transformation Management Board, with monthly reporting to Cabinet Members and Cabinet.

In terms of budget setting, the timetable and process have been significantly enhanced since the 2025/26 budget setting. The MTFS assumptions were updated in July and formally presented to Cabinet for consideration and approval, taking account of both external considerations such as local government funding reforms as well as growth pressures.

An external review of the MTFS process has been undertaken to provide assurance on both the process and the assumptions made. Improvements identified through the review are being incorporated into the budget setting and MTFS planning process for 2026/27.

A savings proposal and delivery plan template has been produced to ensure a consistent approach to the development of savings and income generation proposals. Budget challenge has taken place using both internal information and external benchmarking and comparative data to identify opportunities for significant savings and income generation to close the forecast budget gap over the MTFS period. All savings proposals are subject to finance review and validation before they are recommended for consideration and approval.

External specialist support has been commissioned to support the identification and delivery of savings and cost reductions over the medium term, particularly in relation to demand management, prevention and early intervention in Housing, Adult Social Care and Children's Services.

Further enhancements will be made following the current budget setting round, particularly in relation to earlier timetabling to enable the development of longer-term savings and income generation proposals.

# VFM arrangements – Prior year significant weaknesses and recommendations

## Progress against significant weaknesses and recommendations made in a prior year

As part of our audit work in previous years, we identified the following significant weaknesses and made recommendations for improvement in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below, along with our view on the Council's progress against the recommendations made, including whether the significant weakness is still relevant in the 2024/25 year.

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date and conclusion
<p><b>Financial sustainability – resilience to potential future pressures (identified 2022/23)</b></p> <p>The Council's general fund balance at 31st March 2023 was £848,000, which is below the CIPFA best practice of 5% of net expenditure on the provision of services. The Council's published revenue and capital budget for 2023/24 to 2026/27 identifies that the Council has budgeted to replenish its reserve balances by £500,000 annually.</p> <p>In addition, the Council's HRA reserve was just £8.798 million at 31st March 2023. Earmarked reserves in relation to the HRA have decreased steadily since 31st March 2019 from £46.9 million to £18 million in at 31st March 2023.</p> <p>The March 2023 position indicates that the Council was reliant upon reserves to meet the costs of services. This will not be viable in short to medium term given that there are significant risks that the general fund balance will not be sufficient to provide financial resilience into the future, and the council's plan for their future replenishment of general fund balances will not enable it to recover those balances to CIPFA recommended levels.</p> <p>This is evidence of weakness in the Council's arrangements for identifying and managing risks to financial resilience.</p>	<p>Financial sustainability</p>	<p>The Council should take urgent steps to improve its financial resilience through replenishing its general fund balance to an appropriate level, and by setting an achievable programme of savings and determining how it can transform the way services are delivered.</p>	<p><b>Actions taken to date</b></p> <p>The Council's usable reserves have further decreased during 2024/25 by £75.2m based on figures published in the Council's draft accounts. Unallocated usable reserves have decreased from £30.0m to £5.0m.</p> <p>The Section 151 officers' section 25 assurance statement outlines that the level of reserves is cause for concern and that the continued use of reserves without replenishment is not sustainable.</p> <p>The Council's 2025/26 budget and MTFs, approved by the full Council in March 2025, forecast that unallocated reserves would hit nil and remain at this level.</p> <p>The updated MTFs published and approved by Cabinet in July 2025 has built in contributions to replenish reserves in future years, achieving a level deemed appropriate by management (10% of net revenue expenditure, approximately £45m) by 2028/29. This is reliant on the Council achieving savings plans of £84.3m over the same period, with £49.9m of savings required in 2026/27 alone.</p> <p><b>Conclusion</b></p> <p>We have concluded that the weakness in arrangements is still relevant in the 2024/25 year.</p>

# VFM arrangements – Prior year significant weaknesses and recommendations

## Progress against significant weaknesses and recommendations made in a prior year - continued

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date and conclusion
<p><b>Financial sustainability – budgeting for growth and achievable savings (identified 2023/24)</b></p> <p>The Council’s 2023/24 financial outturn report identified a total overspend of £19 million for the year. Of this overspend, £10.5 million was due to demand on temporary accommodation costs. Despite this level of overspend, the budget for 2024/25 for the service area only allowed for increased demand of £3.1 million. By quarter 3 of 2024/25 the Council reported a forecast overspend of £31.2 million for housing services, largely attributed to demand pressure.</p> <p>In addition to the above, in December 2023, the savings proposal report to Cabinet identified total achievable savings of £19.3 million for 2024/25. However, in February 2024, the budget for 2024/25 relied on savings of £29 million to achieve a balanced general fund position, which was considerably above the level of achievable savings identified two months previously largely due to the inclusion of unachieved prior year savings.</p> <p>The Council has failed to budget for demand pressure in relation to temporary accommodation (TA) despite prior year overspends and knowledge of demand pressures owing to the cost-of-living crisis. There is also evidence that the Council is budgeting for savings it has previously failed to realise and therefore may not be achievable.</p> <p>Without financial budgeting that is based on realistic assessments of demand and achievable savings, the council risks not being able to deliver services.</p> <p>This is evidence of a significant weakness in relation to financial sustainability, specifically in how the Council plans to bridge its funding gaps identifies achievable savings, and how the body identifies financial pressures that are relevant to its medium-term plans. .</p>	<p>Financial sustainability</p>	<p>The Council should ensure financial plans build in suitable growth based on prior experience and savings that are achievable. Any savings previously not realised should be assessed for future achievability before inclusion in subsequent budgets.</p>	<p><b>Actions taken to date</b></p> <p>The Council set its budget for 2025/26 in March 2025. Total TA spend in 2024/25 was £65m. The budget for TA expenditure in 2025/26 is £42m. Quarter 1 budget monitoring for 2025/26 forecasts an overspend on temporary accommodation of £19m for the year.</p> <p>The 2025/26 budget incorporated £46.3m of savings. At Quarter 2, the Council are forecasting that only £35.2m of this target will be achieved. The Target Operating Model (TOM), a scheme of operating efficiencies, was budgeted to deliver £15.4m of savings in 2025/26, but at Quarter 2 is forecast to deliver £7.5m, being the key driver of slippage against overall target. Plans for most of the schemes in the TOM were formalised in summer 2025 after the budget was approved.</p> <p>During 2024/25 the Council prepared its MTFS for 2026/27 – 2028/29, which was approved by the full Council in March 2025. The Council updated the MTFS in July 2025. The updated MTFS takes the Council’s 4 year saving commitments from £52.8m to £84.3m, with £49.9m of savings required in 2026/27 alone. The level of annual savings required over the life of the revised MTFS far exceeds those that have been previously achieved by the Council.</p> <p><b>Conclusion</b></p> <p>We have concluded that the weakness in arrangements is still relevant in the 2024/25 year.</p>

# VFM arrangements – Prior year significant weaknesses and recommendations

## Progress against significant weaknesses and recommendations made in a prior year - continued

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date and conclusion
<p><b>Homes for Lambeth – informed decision making and using information about performance to improve service delivery</b></p> <p>In 2017 the Council established Homes for Lambeth (HFL) as a wholly owned subsidiary company to help deliver it’s affordable housing strategy. In April 2020, the Council agreed the first 3-year business plan for HFL, together with a 25-year pipeline capable of providing c. 5,000 homes. Over the course of the first two years the Council became aware that housing delivery needed to be enhanced.</p> <p>In July 2022, the Council commissioned an independent review of the Council’s management of, and working relationship with, its wholly owned subsidiary company. The review was commissioned because the company’s delivery of new houses was well behind plan, was receiving criticism from some residents and Members had concerns over the governance of the company and the effectiveness of the Council’s scrutiny.</p> <p><b>3</b> The report’s findings identified that HFL had underperformed. The rationale for the findings relate to how HFL operated, ambiguity in the original brief it was responding to, unclear governance arrangements and poor working relationships with the Council.</p> <p>The report is evidence of weakness in the Council’s governance arrangements for managing the performance of Homes for Lambeth, specifically how the Council ensured it made properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. The report is also evidence of weakness in the Council’s arrangements for improving economy, efficiency and effectiveness and how it uses information about performance to improve the way it manages and delivers its services, specifically assessing how it evaluates the delivery and performance of its affordable housing strategy and identifying areas for improvement.</p>	<p>Governance</p> <p>Improving economy, efficiency and effectiveness</p>	<p>To ensure that the recommendations made in the review are acted upon and implemented we recommend that the Council puts in place robust arrangements to monitor the implementation of the action plan. This should include ensuring that the actions have an appropriate and sustainable impact on its affordable housing strategy.</p>	<p><b>Actions taken to date</b></p> <p>The Council have prepared an HFL action plan that was reported to HFL Group Board in December 2024. Following subsequent approval, key positive actions have been taken to address most of the Kerslake report’s recommendations. These actions focus on improving the Council’s oversight of the companies and outlining clearer delivery briefs and plans.</p> <p>However, the Council is still yet to formalise a plan for the future of the companies. External consultants were commissioned in early 2025 to assess options for bringing the activities of HFL back in-house.</p> <p><b>Conclusion</b></p> <p>We have concluded that the weakness in arrangements is still relevant in the 2024/25 year.</p>

Other reporting responsibilities

# Other reporting responsibilities

## Reporting to the group auditor

### Whole of Government Accounts (WGA)

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

## Wider reporting responsibilities

### Matters we report by exception

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

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

We issued statutory recommendations under paragraph 2 of Schedule 7 of the Local Audit and Accountability Act 2014 on 21<sup>st</sup> February 2025 in relation to the Council's challenging financial situation. We have significant concerns that the actions taken by the Council to address these recommendations to date are not improving the Council's financial situation. We follow-up the Council's response to our recommendations on the following pages of this report.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have accepted two eligible objections to the Statement of Accounts for 2024/25 from local electors and will complete procedures to form a response to these objections prior to issuing our audit certificate.

# Other reporting responsibilities

## Overall summary of Council's response to our statutory recommendations

We issued statutory recommendations on 21<sup>st</sup> February 2025 in relation to the Council's challenging financial situation and governance of its wholly owned subsidiaries, the HFL companies. As required, the Council publicly responded to the recommendations within a month of them being issued. Since this initial response, the Council has developed an action log to address the recommendations and reported progress to each meeting of the Corporate Committee.

We have held regular and frequent discussions with officers (including the Chief Executive and Monitoring Officer) and key members since issuing our statutory recommendations. Officers and members understand and accept the severity of the Council's financial challenges and they are demonstrating a willingness to identify and implement actions aimed at rectifying the Council's financial position.

We acknowledge the Council has taken a significant number of actions since we issued our statutory recommendations. The Council's view of the key actions that have been taken, and that we have considered as part of our follow up work, are:

- Continued its work to implement recommendations identified by the Local Government Association (LGA) peer review aimed at ensuring that the Council's governance arrangements are improved at pace, supporting officers and members to address the Council's financial challenges.
- Agreed an updated MTFS in July 2025 that includes plans to rebuild reserves by £15m per year between 2026/27 and 2028/29. Achieving this strategy will enable the Council to hold reserves at the minimum level deemed to be required by the Section 151 officer.
- Developed a reporting mechanism and governance process to respond to our statutory recommendations. The agreed action plan is reported to each meeting of the Corporate Committee who scrutinise and challenge officers on the progress being made.
- Commissioned an external review of the MTFS to help ensure the cost and funding assumptions are sound and to help ensure savings targets are realistic and deliverable. External support has also been acquired to support the development of comprehensive savings plans.
- Savings proposals for 2026/27 have been brought forward by the Council, with £28m of

proposals being presented to Cabinet in November 2025. The Council's aim is that earlier approval of savings proposals will maximise their potential impact.

- Officers are developing further savings proposals for 2026/27 to ensure that they are fully developed by the date the budget is presented to the full Council in March 2026.
- Paused the Council's capital programme to prevent the Council's borrowing requirement increasing, as well as identifying asset disposals to generate capital receipts.
- Commissioned external support to identify cost reductions in demand led services and support redesigning service delivery.
- Commissioned external support to develop a financial recovery plan for the Housing Revenue Account, identifying asset disposals to support recovery at pace.
- Introduced enhanced financial reporting, providing members with earlier oversight of potential areas of overspend and a clearer view on progress against savings targets.
- Continued to operate enhanced spending controls to reduce non-essential spend in corporate areas.

The Council's actions are not limited to the summary above.

In following section of this report, we have considered the impact these actions are having in rectifying the Council's financial situation.

## Other reporting responsibilities

### Overall summary of the impact of the Council's response to our statutory recommendations

The following section details each of our February 2025 recommendations, the Council's planned action and progress against each action. We acknowledge the significant efforts being made by officers and members to address the financial challenges faced by the Council and the period for turning around the Council's situation will exceed 12 months. Our consideration of the actions taken to date are on the impact made to address the statutory recommendations to date.

The Council should...	Page reference	Impact of the Council's actions to date
...identify additional savings and efficiencies to mitigate forecast overspends for 2024/25.	38	Unsatisfactory
...ensure planned savings for 2025/26 are achievable and put in place cost control measures to avoid overspends.	39	Unsatisfactory
...replenish the level of unallocated general fund and HRA reserves to those levels deemed prudent by the Section 151 officer.	40	Unsatisfactory
...reduce the unfunded budget gap within the Council's MTFS.	41	Unsatisfactory
...implement the key recommendation of the Kerslake report of bringing the provision of housing services through Homes for Lambeth back 'inhouse' and determine the associated financial consequences and the impact on the level of reserves and the MTFS.	42	Unsatisfactory

## Other reporting responsibilities

### Consideration of the impact of the Council's response to our statutory recommendations

Recommendation	The Council should identify additional savings and efficiencies to mitigate forecast overspends for 2024/25	
Council action	Council Progress	Impact of action
Savings and efficiencies in 2024-25 to be identified as part of the Council's budget monitoring and reporting arrangements	In February 2025, the Council was forecasting a year-end overspend for 2024/25 of £34.7m. The final outturn reported in June 2025 was an overspend of £60.5m. We acknowledge savings were delivered in adult social care and children's social care, but increased overspends on temporary accommodation, interest payable and bad debt write offs significantly worsened the Council's deficit between quarter 3 and year end. The Council delivered £23.8m of its planned £30.0m savings for 2024/25.	<p><b>Unsatisfactory</b> The Council failed to mitigate forecast overspends for 2024/25 with savings.</p>
Continue to operate spending control arrangements to minimise avoidable staffing and non-staffing expenditure during 2024-25	The Council's enhanced spend control is making positive impacts in some areas of corporate spend. Agency staff costs were reduced by £1.5m between Q3 of 2024/25 and year end and there were small improvements in adult social care and children's social care. However, this success is only limited to a relatively small area of spend and is insufficient to address the Council's financial situation.	<p><b>Unsatisfactory</b> Spend controls only achieved small savings.</p>
<p><b>Overall conclusion on the impact of Council action to address recommendation</b></p>	<p><b>Unsatisfactory</b> The impact of the actions taken by the Council to date have not adequately addressed the statutory recommendation issued in February 2025. Although enhanced spending control arrangements had some positive impact, the year end outturn overspend for 2024/25 almost doubled from Q3 to Q4.</p>	

## Other reporting responsibilities

### Consideration of the impact of the Council's response to our statutory recommendations - continued

Recommendation	The Council should ensure planned savings for 2025/26 are achievable and put in place cost control measures to avoid overspends	
Council action	Council Progress	Impact of action
Assess the robustness of the delivery plans for the agreed 2025-26 savings to ensure they are deliverable.	The Council committed to savings of £46.3m in its 2025/26 budget. Its most recent forecast is that £26.3m of these savings will be achieved. The Target Operating Model (TOM), a key part of the 25/26 savings plan, is forecast to achieve just £0.5m of £15.4m savings budgeted. Plans to deliver the TOM were not formalised when the budget was prepared and approved. The savings requirement in the latest MTFS are significantly higher than the Council has been able to deliver in previous years. Work to plan future savings for subsequent years has shown promise, with plans being brought forward to mitigate the impact of slippage against the 25/26 savings plan.	<b>Unsatisfactory</b> Plans to deliver the 2025/26 savings have not been robust and the Council is forecasting under performance against its target.
Provide comprehensive finance monitoring reports.	Since July 2025, finance monitoring reports have been presented to each Cabinet meeting. The reports clearly set out the financial position of the Council and progress against savings targets.	<b>Satisfactory</b> The Council is presenting detailed and clear financial information.
Produce a monthly savings tracker to monitor and report on delivery progress and any identified risks and mitigations.	As part of regular financial reporting, the Council details planned savings, the actions they involve and progress against target. The trackers clearly outline the actions being taken, and clearly outline the Council is not on track to deliver its planned savings.	<b>Satisfactory</b> Savings trackers clearly report on progress.
Identify and deliver agreed management actions that are required to offset any in-year pressures.	The Council's 2025-26 Q3 monitoring reports identify clear management actions proposed to address the pressures that have been identified. Notwithstanding the management actions, the Q3 forecast for the year end suggests these are not sufficient to deliver the savings in year. It is important to acknowledge between Q1 and Q3, management actions have reduced forecast overspends from £20m to £17m.	<b>Unsatisfactory</b> The Council is agreeing actions, but they are not offsetting pressures.
Spending controls to be in place to limit avoidable non-essential spend.	The Council's enhanced spend control is making positive impacts in some areas of corporate spend. Noting the increased savings slippage of £9m between Q1 and Q3, spend control has both mitigated and reduced the Council's overspend by £3m.	<b>Satisfactory</b> Spend control in corporate budgets are offsetting savings slippage.
Specific spending controls and demand management actions in place across Housing, Children's Services and Adult Social Care to reduce in-year and future years overspends.	The council has made positive steps in reducing overspends in key demand led services during the year, with Housing reducing from £20.0m to £18.1m and Adults reducing from £8.0m to £3.7m. However, total overspends on the three key demand led services are forecast to be £28.5m. The Council will be reliant on reserves and exceptional financial support in 2025/26 to meet the shortfall.	<b>Unsatisfactory</b> The Council been unable to address in-year pressures in demand-led services.
Improvement plan in place for income assessment, billing, collection and debt recovery.	The Council agreed an improvement plan at its July 2025 Overview and Scrutiny Committee including specific actions for improving debt recovery and income collection, but the Q3 financial monitoring report identifies overall debt continues to increase.	<b>Unsatisfactory</b> The Council's actions have not improved debt recovery to date.
<b>Overall conclusion on the impact of Council action to address recommendation</b>	<b>Unsatisfactory</b> The impact of actions taken by the Council to date has not adequately addressed the statutory recommendation issued in February 2025. The Council forecasts a £17m overspend for the 2025/26 at Q3 and is failing to deliver against its savings target.	

## Other reporting responsibilities

### Consideration of the impact of the Council's response to our statutory recommendations - continued

Recommendation	The Council should replenish the level of unallocated general fund and HRA reserves to those levels deemed prudent by the Section 151 officer	
Council action	Council Progress	Impact of action
<p>Review of General Fund reserves to be undertaken and recommendations implemented as part of the 2024-25 closing of accounts.</p>	<p>The Corporate Director of Finance and Governance is required by law to determine an adequate level of reserves, which has been set at 10% of net revenue expenditure, approximately £45m. The Council's 2024/25 outturn report outlines the drawings on reserves required to fund the overspend on provision of services, taking available reserves further below this level. Unallocated GF reserves were just £5m at the close of 2024/25 and unallocated HRA reserves were nil. The 2025/26 budget approved by the full Council in March 2025 does not include any provision for replenishing the level of reserves, with unallocated general fund reserves also forecast to hit nil by 31<sup>st</sup> March 2026. While we acknowledge the Council has a plan, reliant on savings, to replenish allocated reserves to the level deemed to be required by 2028/29, the Council will have no cushion to protect against unexpected financial pressures in the shorter-term. Exceptional financial support from central government is being explored by the Council but is yet to be agreed by the department.</p>	<p><b>Unsatisfactory</b> The Council does not have usable unallocated reserves in line with the minimum deemed to be required by the Corporate Director of Finance and Governance.</p>
<p>Reserves strategy for General Fund and HRA to be developed and implemented as part of the 2026-27 and Medium-Term Financial Strategy.</p>	<p>The Council have set 10% of the net revenue budget (approximately £45m) as the required level of unallocated reserves. The revised MTFs approved by full Council in July 2025 sets out a plan to replenish reserves to this level over the years 2026/27 to 2028/29. This is dependent on the Council achieving its savings target of £84.3m in the same period. In the latest financial monitoring report to Cabinet in February 2026 the Council was forecasting that it would achieve £26.3m of the £46.3m savings target for 2025/26.</p> <p>The Councils budget for 2026/27 has presented a strategy for rebuilding reserves. However, this is dependent on the allocation of exceptional financial support which is yet to be agreed.</p> <p>The Council have agreed with Government, in principle exceptional financial support (EFS) of £40m to balance it's 2025/26 HRA budget. An external review of the HRA and related business plan was commissioned in July 2025, which will seek to formalise how HRA reserves will be replenished, but has not yet been finalised.</p>	<p><b>Unsatisfactory</b> Whilst the Council has a plan to replenish general fund reserves, it is heavily reliant on the delivery of a large programme of savings and EFS that is yet to be agreed. There is no formalised plan for replenishing HRA reserves, with the HRA now being sustained by EFS.</p>
<p><b>Overall conclusion on the impact of Council action to address recommendation</b></p>	<p><b>Unsatisfactory</b> The impact of the action taken by the Council to date has not adequately addressed the statutory recommendation issued in February 2025. The Council's plans to replenish general fund reserves is reliant on savings are significantly higher than the Council has been able to deliver in previous years and the Council is currently forecasting that it will not deliver planned savings for 2025/26. There is no plan for replenishing HRA reserves.</p>	

## Other reporting responsibilities

### Consideration of the impact of the Council's response to our statutory recommendations - continued

Recommendation	The Council should reduce the unfunded budget gap within the Council's MTFS	
Council action	Council Progress	Impact of action
Cost assumptions in the current MTFS to be updated to confirm the financial implications on the budget and wider financial position	The Council's updated MTFS was published and agreed in July 2025 and outlines the severity of the Council's financial challenge. The updated MTFS has increased the Council's budget gap from 2026/27 to 2029/30 by £31.5m to £84.3m. This increased further in the 2027/28 to 2029/30 MTFS to a cumulative £129.6m. The Council plans to address the increased budget gaps by identifying additional savings on top of those previously agreed and is seeking exceptional financial support.	<b>Satisfactory</b> Whilst highlighting inaccuracies in the initial MTFS, the revised MTFS has provided clarity on the severity of the Council's financial challenges.
Earlier identification and development of savings and income generation proposals and delivery plans	The TOM made up a third of the Council's savings for 2025/26. However, clear plans to achieve these were not formalised until summer 2025 and almost none of these savings are now forecast to be achieved. Initial savings of £28m were identified for 2026/27 and were presented to Cabinet in November 2025, rather than waiting for the 2026/27 budget, to maximise their impact. Full plans outlining actions for the full savings requirement of £46.6m required to balance the 2026/27 budget will be approved in March 2026.	<b>Unsatisfactory</b> The Council is identifying savings earlier. However, the unfunded budget gap has not been reduced as the underlying savings requirement has increased.
Review and develop the existing capital programme to reduce the borrowing requirement as part of the options to close the budget gap	The Council have taken the tough decision to pause its capital programme to reduce borrowing. In July 2025, the Council set out the proposed strategic approach for managing and investing in its housing stock and estates. As part of this new framework, the Council has agreed the disposal of assets totalling £13.7m. Flexibilities afforded to the Council in the application of capital receipts will support the Council in using these funds to manage its budget gap.	<b>Satisfactory</b> The Council has taken immediate steps to generate capital receipts in support of its financial recovery.
Produce a financial recovery plan for the Housing Revenue Account to deliver a sustainable budget	At Q3 the Council is forecasting that it will need to apply in full a £40m capitalisation direction (EFS) to balance its HRA in 2025/26. Work, with the support of external consultants, is underway to develop a long-term recovery plan for the HRA, but in the short-term, it is reliant on EFS. This EFS is funded by debt and will increase the Council's debt servicing burden into the future. The Council is taking steps to agree the sale of HRA assets to support its recovery.	<b>Unsatisfactory</b> The Council does not have a formalised recovery plan for the HRA, with the HRA now being sustained by EFS.
Review and revise the Treasury Management Strategy to support the delivery of a balanced budget	The Council's Treasury Management Strategy (TMS) for 2025/26 to 2027/28 follows the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and Prudential Code and incorporates a debt management strategy that reflects the council's need to borrow.	<b>Satisfactory</b> The Council has incorporated its debt management obligations into the strategy.
<b>Overall conclusion on the impact of Council action to address recommendation</b>	<b>Unsatisfactory</b> The impact of the action taken by the Council to date has not adequately addressed the statutory recommendation issued in February 2025. The Council has not yet reduced the unfunded gap in its MTFS.	

## Other reporting responsibilities

### Consideration of the impact of the Council's response to our statutory recommendations - continued

Recommendation	The Council should implement the key recommendation of the Kerslake report of bringing the provision of housing services through Homes for Lambeth back 'inhouse' and determine the associated financial consequences and the impact on the level of reserves and the MTFS	
Council action	Council Progress	Impact of action
Complete an appraisal of the financial impact of Homes for Lambeth	A financial appraisal has been commissioned to identify and address the implications for the Council's General Fund and Housing Revenue Account of decisions relating to the future running of HfL. This work is ongoing so there has been no formal consideration of the options available to the Council. As a result, members are yet to be informed of the potential financial impacts. Loans to HfL from the Council total £102m, with total allowances and impairments recognised to date of £59m leaving a total recoverable debtor of £42m. It is likely that bringing the operation of HfL in-house will have significant financial implications for the Council.	<p><b>Unsatisfactory</b></p> <p>The Council has not completed an appraisal of the financial impact of in-housing the activities of HfL.</p>
Overall conclusion on the impact of Council action to address recommendation	<p><b>Unsatisfactory</b></p> <p>The impact of action taken by the Council to date has not adequately addressed the statutory recommendation issued in February 2025. The Council has not completed an appraisal of the financial impact of its plans for HfL.</p>	

## Other reporting responsibilities

### Overall conclusion after considering the Council's response to our statutory recommendations

Since issuing our recommendations on 21 February 2025, the Council's overspend for 2024/25 has been reported at £60.5 million against a Q3 forecast of £34.7 million. The 2025/26 Q3 budget monitoring report forecasts a full year overspend of £17 million for 2025/26 against a budgeted spend on services of £443 million.

The Council has undertaken extensive work to form and implement future strategies and plans to tackle the financial challenge. The Council's actions have started to make a positive and sustained impact, reducing a forecast 2025/26 overspend of £20 million at Q1 to £17 million at Q3. However, the Council continues to report overspends and delayed delivery of savings plans. The 2026/27 budget is reliant on the provision of £20 million EFS which government were minded to approve on 23 February 2026.

Whilst the Council has taken positive steps to review and update the cost and funding assumptions in its 2026/27 to 2029/30 Medium Term Financial Strategy (MTFS) to more accurately reflect the Council's circumstances, it has highlighted the severity of the Council's financial challenge. The Council updated its MTFS in July 2025 for 2026/27 to 2029/30 and the reported budget gap had increased from £52.8 million to £84.3 million and the Council had identified the need for savings of £46.6 million to balance the 2026/27 budget alone.

In March 2026, the budget for 2026/27 and MTFS for 2027/28 to 2029/30 will be approved by full Council. The budget for 2026/27 includes EFS of £20 million for 2026/27 and EFS for the years 2024/25 and 2025/26. The Council will also commit to a programme of savings worth £46.6 million in the 2026/27 budget and outlines a cumulative budget gap of £129.6 million in 2027/28 to 2029/30 MTFS. The key risk for the Council is that it has not delivered savings at this level in previous years, although it is noted that there are contingency provisions as well as general fund reserves now in place with the use of EFS.

The Council's end of November 2025 Q2 2025/26 financial monitoring report and its February 2026 Q3 reporting shows that management actions having a positive impact on the Council's financial challenges. However, we retain our significant concerns that the actions taken by the Council over the 12 months since we issued our statutory recommendations need to have sufficient and sustained impact to keep pace with the Council's increasing financial challenges.

We acknowledge that the financial challenges faced by the Council will take longer to resolve than the 12 months it has been since we issued the statutory recommendations. We also recognise that the operational and organisational changes being driven by the Chief Executive and Section 151 officer, and supported by members, will take time to show large scale tangible improvements.

05

Audit fees and other services

# Audit fees and other services

## Fees for our work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Corporate Committee in July 2025. Since issuing our audit strategy memorandum, we have concluded that there is not sufficient time between the date the Council published the version of its Statement of Accounts that were of sufficient quality to support and audit and the February 2026 backstop deadline. We have adjusted our fees accordingly to reflect the fee reduction for backstopping the audit, then including additional fees to enable us to discharge our responsibilities as the Council's appointed auditor for 2024/25. We will discuss and agree final fees with the Section 151 officer.

Area of work	2024/25 fees (excl VAT)	2023/24 fees (excl VAT)
Planned fee in respect of our work under the Code of Audit Practice	£553,794	£519,894
Fee reduction of to complete minimum procedure backstop	TBC by PSAA	£(259,947)
Additional work:		
1. Procedures completed in good faith ahead of backstop guidance	-	£50,000
2. Procedures necessary above minimum backstop requirements	£75,000	-
3. VFM risks of significant weakness	£75,000	£100,000
4. Work to issue statutory recommendations	-	£15,000
5. Work following up statutory recommendations	£65,000	-
6. Work to address correspondence from local electors	£20,000	-
7. Objections received from local electors	£15,000 - £30,000	£40,000 - £80,000
<b>Total fees</b>	<b>TBC</b>	<b>TBC</b>

### Additional fee notes

1. Procedures undertaken for the 2023/24 audit in advance of NAO backstop guidance.
2. The issues we have reported throughout the year to Corporate Committee in relation to poor quality accounts and material issues required our consideration.
3. Work on VFM risks of significant weakness performed by the senior manager and reviewed by the partner. Time includes our internal quality assurance process that involves other partners and directors. All fees outside of the PSAA scale fee.
4. Specific procedures to issue the statutory recommendations.
5. Specific procedures to follow up the Council's actions in response to the statutory recommendations, performed by the senior manager and reviewed by the partner.
6. We have received extensive correspondence from local electors that has required additional time from the partner and senior manager. This work is outside the PSAA scale fee.
7. We have received objections to both 2023/24 and 2024/25 that have been multifaceted and complex requiring significant additional work from the team leader, senior manager and partner. This work includes our internal quality assurance process for objections and the input of the firm's lead on objections.

06

Audit of London Borough of Lambeth  
Pension Fund

# Audit of London Borough of Lambeth Pension Fund

## Summary of key information

As the auditor for London Borough of Lambeth Pension Fund ('the Pension Fund'), our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). This section of the AAR summarises how we have discharged these responsibilities and the findings from our work we have undertaken as the Pension Fund auditor for the year ended 31 March 2025.



### Opinion on the Pension Fund financial statements

On 27 February 2026 we also issued our audit report on the Pension Fund statement of accounts. Our opinion on the financial statements was disclaimed. This means our audit report does not express an opinion on the financial statements, and we provide no assurance. We issued a disclaimed audit report because we have been unable to obtain sufficient assurance concerning the existence and completeness of current assets and current liabilities as at 31 March 2024 and 31 March 2025 and we did not have sufficient appropriate evidence over the completeness of transactions reported in the Fund Account before the 27 February 2026 backstop date.



### Wider reporting responsibilities

We have not exercised any of these powers as part of the London Borough of Lambeth Pension Fund's 2024/25 audit.



### Significant difficulties during the audit

We were unable to obtain assurance over the pension fund's current assets and current liabilities balances because of the pension fund being unable to provide suitable transactional level data to support our audit testing. In addition, we identified a balance within cash that the Pension Fund could not support.



### Consistency report

We are unable to conclude that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of London Borough of Lambeth Council as we are issuing a disclaimed opinion.

## Fees for our work as the Pension Fund's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Corporate Committee in July 2025. We will discuss and agree our final fees with the Section 151 officer.

Area of work	2024/25 fees	2023/24 fees
Planned fee in respect of our work under the Code of Audit Practice	£80,080	£69,607
Additional fees:		
1. Revised auditing standard - ISA315R	Built into fee	£7,840
2. Testing in relation to current assets and current liabilities	£20,000	£19,000
3. Basis of disclaimed/qualified opinion	£12,000	£6,000
<b>Total fees</b>	<b>£112,000</b>	<b>£102,447</b>

Notes (fees exclude VAT)

- 2023/24 was the first year of the revised auditing standard ISA315R. The 2024/25 scale fee has built in the associated fees.
- We have been required to spend extensive time and effort to understand and test, to the extent that we have been able to, the pension funds current assets and current liabilities. This work was carried out by the team leader, senior manager and partner review.
- For both years we have been required to modify our audit report to reflect the material issues we have identified. Modifying the audit report is not standard practice and involves significant additional input from the partner and senior manager and our internal quality assurance process that involves other partners and directors.

# Contact

## Forvis Mazars



### **Suresh Patel**

Audit Partner

Tel: +44 7977 261873

[suresh.patel@mazars.co.uk](mailto:suresh.patel@mazars.co.uk)



### **Paddy Sadd**

Audit Senior Manager

Tel: +44 7581 008590

[paddy.sadd@mazars.co.uk](mailto:paddy.sadd@mazars.co.uk)

The contents of this document are confidential and not for distribution to anyone other than the recipients.

Disclosure to third parties cannot be made without the prior written consent of Forvis Mazars LLP.

Forvis Mazars LLP is the UK firm of Forvis Mazars Global, a leading global professional services network. Forvis Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at 30 Old Bailey, London, EC4M 7AU. Registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861. VAT number: GB 839 8356 73

© Forvis Mazars 2025. All rights reserved.