



# Auditor's Annual Report for London Brough of Sutton

***INTERIM DRAFT***

Year-ended 31 March 2025

—

23 October 2025

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

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

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



**01**

# **Executive Summary**



# Executive Summary

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## Purpose of the Auditor’s Annual Report

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

## Our responsibilities

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



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



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



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



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

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

## Findings

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

Financial statements and other information	The Code of Audit Practice requires us to issue the Auditor’s Annual Report no later than 30 November of each year. In order for us to comply with this requirement, we have issued this Auditor’s Annual Report prior to the completion of our work in relation to the financial statements and other information. Consequently, we have not reached our conclusions in respect of these areas.
Value for money	Our work to assess the arrangements the Council has put in place to secure economy, efficiency, and effectiveness in the use of its resources is underway. Further details of our findings to date are set out on page 6.
Whole of Government Accounts	We are required to perform procedures and report to the National Audit Office in respect of the Council’s consolidation return to HM Treasury in order to prepare the Whole of Government Accounts.  As the National Audit Office has not yet informed us that we are not required to perform any further procedures, we are unable to confirm that we have concluded our work in this area.
Other powers	See overleaf. Note that, as we are still performing our procedures in relation to the financial statements, we may choose to exercise our other powers in relation to the 2024-25 audit in the future.



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

## Public interest reports

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

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

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

## Judicial review/Declaration by the courts

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

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

## Recommendations

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

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

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

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

## Advisory notice

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

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

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

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

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# Value for Money

# Value for Money

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## Introduction

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



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



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



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

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

## Approach

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

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

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

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

## Summary of findings

Our work in relation to value for money is not complete. Matters set out here may change upon the completion of our work.

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	9	11	13
Identified risks of significant weakness?	✓ TBC	✓ TBC	✗ No
Actual significant weakness identified?	We have not yet concluded our work	We have not yet concluded our work	We have not yet concluded our work
2023-24 Findings	Risk of significant weakness noted but did not materialise into significant weakness.	No significant risks identified.	No significant risks identified.
Direction of travel	↔	↔	↔

# Value for Money

## National context

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

### Financial performance

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

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

### Education

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

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

### Housing

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

## Local context

The London Borough of Sutton continues to operate under financial constraints while striving to deliver statutory and discretionary services within budgetary limits amid rising demand. These challenges reflect broader trends affecting London boroughs and are not unique to Sutton.

Financial pressures are particularly acute in the areas of Adult and Children’s Social Care, as well as in the provision of temporary accommodation. Notably, the Council has not had to seek exceptional financial support in response to these challenges to date.

In comparison with its London counterparts, the Council’s reserves remain relatively low. However, there has been a modest improvement, with general and earmarked reserves standing at £43.2 million as of March 2025—a £3.7 million increase from March 2024. Furthermore, the Council reported an underspend of £0.7 million for the financial year.

In October 2024, the Council underwent a Corporate Peer Review facilitated by the Local Government Association (LGA). The final report, published in November 2024, concluded that ‘Sutton is a well-performing council with a strong track record of delivery, supported by an engaged workforce and a positive organisational culture with a clear commitment to serving residents’.

Both the Medium-Term Financial Strategy for 2022–2027 (MTFS) and the latest Medium-Term Financial Plan (MTFP) highlight budgetary gaps, reflecting ongoing uncertainties regarding future costs and the delivery of savings. The Council has identified a savings target of £12 million for 2025/26, which is an increase from the £10.6 million target set for 2024/25.

The Council also maintains a substantial capital investment programme, with its most significant commitments focused on the regeneration of Sutton Civic and Town Centre. The Council reported an outturn underspend of £43.3 million against the capital budget, largely attributable to project delivery delays and the re-scoping of major initiatives.



# Financial Sustainability

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

We have considered the following in our work:

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

Our risk assessment procedures **remain ongoing**; however, work completed to date has confirmed that the Council has established processes for budget-setting, savings identification, financial performance monitoring, and the management of risks to financial sustainability.

Quarterly financial reports are submitted to the Strategy and Resources Committee, providing comprehensive updates on performance against both revenue and capital budgets, as well as progress towards savings targets for the financial year.

### Level of Reserves

As at March 2025, the Council's reserves remained at a comparatively low level to other London boroughs, with the General Fund balance standing at £9.6 million, just meeting the Council's minimum threshold of 5% of the net revenue budget. This position places the Council towards the lower end of the sector in terms of general reserve levels, thereby offering limited flexibility to address unforeseen challenges or emerging financial pressures.

The CIPFA Financial Resilience Index continues to rate the Council as high risk in both the Social Care and Fees & Charges to Service Expenditure indicators, relative to other London boroughs. This assessment is largely attributable to increased demand for social care services, which has resulted in higher associated costs and, consequently, a rise in the relevant indicator values.

Nevertheless, there has been a modest improvement in the Council's overall reserves position. As of March 2025, general and earmarked reserves totalled £43.2 million, an increase of £3.7 million compared to March 2024.

### Financial Performance

The Council has faced financial challenges throughout the year, mainly due to high inflation, high demand for social care, and rising costs for temporary accommodation. The main contributing services have been social care for children and adults, temporary accommodation for homeless families and individuals, and transport to school for children with special education needs and disability.

The budget for the 2024/2025 financial year was formally approved by the Strategy and Resources Committee in February 2024 on a breakeven basis, incorporating a contingency of £2 million.

The final outturn for the year reflected a net underspend of £0.7 million. This position was achieved despite a £4.5 million overspend within the People Directorate, which was offset by underspends across corporate costs, contingencies, and other directorates.

# Financial Sustainability

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## Efficiency and Savings

The Council employs a structured approach to the identification of savings plans as part of the annual budget-setting process. Each proposed saving undergoes an assessment to determine the probability for its achievement.

Progress against these savings targets is subject to regular scrutiny, with performance updates presented first to the Corporate Management Team and subsequently to the Strategy and Resources Committee. These reports provide detailed updates on the progress towards achieving the overall savings target.

For the 2024/2025 financial year, an initial savings target of £10.6 million was established. In line with the Council's savings monitoring framework, these anticipated savings were reflected as deductions from directorate budgets. Our review confirmed that delivery against the agreed savings targets is reported on a quarterly basis to the Strategy and Resources Committee. These reports include a rating system that assesses the likelihood of achieving each element of the savings plan, accompanied by explanatory commentary on the probability of realisation.

*Please note, our review of the Council's outturn against the savings target is currently ongoing and any further findings in this area will be communicated in a subsequent version of this report.*

## Financial Planning

Looking forward, the Medium-Term Financial Plan 2025/2026 – 2028/2029 forecasts a balanced budget for the 2025/2026 financial year with a cumulative budget gap of £17.6 million for the 2026/2027 and 2027/2028 financial years, mainly due to inflation and the provision of demand-led growth.

## Conclusion

Based on our risk assessment completed to date, specifically the low level of general fund reserves, historical and continued budget overspend in some service areas, and identified gaps in future years' budgets, we have maintained the significant risk of weakness in arrangements for financial sustainability.

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Key financial and performance metrics:	2024-25	2023-24
Planned surplus/(deficit), excluding HRA	0	0
Actual surplus/(deficit), excluding HRA	0.7m	(£1.6m)
Planned HRA surplus/(deficit)	TBC	TBC
Actual HRA surplus/(deficit) per Income statement	£21.1m	£3.1m
Usable reserves	£121.6 m	£162.7m
Gross debt compared to the capital financing requirement	0.77:1	0.83.1
Year-end borrowings	£423.6m	£439.2m
Year-end cash position	£9.5m	£35.1m

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

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

# Governance

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

We have considered the following in our work:

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

## Risk Management

The London Borough of Sutton follows a structured process for risk identification consistent with its risk management strategy. Risks are reviewed by the corporate management team and the Audit and Governance Committee (AGC) and recorded in the corporate risk register, where they are assessed for likelihood and impact based on detailed profiles of causes and consequences.

From January 2024 to July 2025, the corporate risk register was presented to the AGC five times for review. This frequency is considered sufficient for the ongoing identification, assessment, and management of emerging risks. Key corporate risks are also reviewed annually by the Strategy and Resources Committee during the year-end budget report. Actions related to risks are determined at project, directorate, or corporate levels and monitored through appropriate governance mechanisms.

Building safety risks, including fire, damp, and mould, are included in the corporate risk register. The Council conducts periodic fire and water safety assessments of its housing stock. Internal audit coverage of this area was part of the 2024/2025 programme, which identified in its 17 July 2024 report that there was insufficient evidence of fire and water risk assessments for two sampled buildings. As of October 2025, internal auditors noted that the fire door inspection for one building was not complete. This may constitute a breach of building safety regulations and be indicative of a potential governance weakness and our inquiries in this area is ongoing.

## Control environment

From our procedures to date we have not identified any overarching risks of weakness in the control environments. Our evaluation of the internal controls relating to our audit risks are still ongoing.

## Governance Structure and Decision Making

The Council has a governance structure that includes committees and sub-committees appropriate for its size and complexity. The Council's constitution specifies the roles and responsibilities of various committees and outlines an escalation framework for key decisions. This framework involves preparing business cases, obtaining necessary approvals, and reviewing these cases with consideration of their impacts on residents, and possible climate, financial, and legal implications. The Council publishes records of all significant decisions on its website for public review.

*Please note, our procedures for reviewing the process of reviewing business cases and the governance procedures for decision-making is ongoing.*

# Governance

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## Budgetary Control

The Council employs a robust process for performance monitoring, providing budget holders with real-time access to financial data so they can update forecasts monthly. Summary budget reports are distributed to Heads of Service and Assistant Directors for thorough review. Our examination of the Q4 financial performance report demonstrated that it offers detailed analysis, explanations of variances, assessment of impacts on the overall budget, and outlines subsequent actions, including measures to maintain budgetary balance.

## Policies and Procedures

Clear staff and member behaviour policies are in place, including Disciplinary Policies and Procedures, Anti-Fraud and Corruption Policy, Whistleblowing Policy, Code of Conduct, Sickness Absence Policy, and Health and Safety Policy.

## Conclusion

Our risk assessment procedures are ongoing.

	2024-25	2023-24
Control deficiencies reported in the Annual Governance Statement	TBC	3
Head of Internal Audit Opinion	Reasonable conclusion as to the adequacy and effectiveness of the Council's control, risk and governance environment.	Reasonable conclusion as to the adequacy and effectiveness of the Council's control, risk and governance environment.
Ofsted rating*	Good (Rated in May 2025)	Requires improvement (Rated in 2022)
Local Government Ombudsman findings	86 complaints, 13 upheld	58 complaints, 16 upheld
Housing Ombudsman findings	10	5
Care Quality Commission rating	No new reports in year	No new reports in year

*\*Please note that the Ofsted rating relates to Sutton College only.*

# Improving economy, efficiency and effectiveness

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

We have considered the following in our work:

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

## Performance Monitoring

The Council monitors a range of performance indicators at the project, programme, departmental, and corporate levels. These indicators are aligned with corporate plan priorities, financial risk areas, and statutory duties. Performance metrics are informed by and benchmarked against the Office for Local Government's report. A summary of these indicators is provided to the Corporate Management Team for review and discussion, including an overview of the current status and performance relative to budget assumptions or established targets.

## Strategic Partnerships

Partnership working is integral to the Council's strategic approach and daily operations. The Council participates in joint committees with several London boroughs, fostering collaboration, and shares services with multiple South London Councils, including Merton, Kingston, Wandsworth, and Richmond. Furthermore, the Council has recently established partnerships with private sector entities such as Aviva and the Institute of Cancer Research London to advance the development of the Sutton Hospital site as the London Cancer Hub.

## Procurement

The Council follows a defined procurement process with waivers approved by senior directors and tracked in a register. Our review of the procurement process is ongoing.

## Contract Management

As part of managing the outsourced services, the Council has a process to monitor the performance of the suppliers and also whether efficiencies have been delivered. Our review of the contract management process is ongoing.

## Conclusion

Our risk assessment procedures are ongoing, we have not identified any significant risks of weakness in arrangements to date. We will provide an update of this assessment in a subsequent report.





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