

Rushmoor Borough Council

Draft Auditor's Annual Report
Year ended 31 March 2025
January 2026



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Audit and Governance committee
Rushmoor Borough Council
Council Office, Farnborough Road
Farnborough, Hants
GU14 7 JU

19 January 2025

Dear Audit and Governance Committee Members

2024/25 Auditor's Annual Report

We are pleased to attach our draft Auditor's Annual Report including the commentary on the Value for Money (VFM) arrangements for Rushmoor Borough Council. This report and commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our findings for audit year 2024/25. If the financial statements audit is still in progress as at 30 November 2025, this report has been issued as draft and will be finalised as part of issuing the 2024/25 audit report.

This report is intended to draw to the attention of the Rushmoor Borough Council any relevant issues arising from our work up to the date of issuing the report. It is not intended for, and should not be used for, any other purpose.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 28 January 2026.

The [EY UK 2025 Transparency Report](#) provides details regarding the firm's system of quality management, including EY UK's system of quality management annual evaluation conclusion as of 27 June 2025.

Yours faithfully

Simon Mathers
Partner, For and on behalf of Ernst & Young LLP
Enc

Contents

01 Executive Summary

02 Audit of financial statements

03 Value for Money Commentary

04 Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits>)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code), and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Governance Committee management of Rushmoor Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee management of Rushmoor Borough Council those matters we are required to state to them in this 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 Audit and Governance Committee management of Rushmoor Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Executive Summary

Executive Summary

Purpose

The Auditor's Annual Report summarises the year's audit work, including value for money commentary and confirmation of the financial statement opinion. It also references any use by the auditor of their additional powers and duties under the Local Audit and Accountability Act 2014. In line with the NAO Code of Audit Practice 2024 ("the 2024 Code") and Auditor Guidance Note 03 (AGN 03), this report provides an overview to Rushmoor Borough Council (the Council) and the public, detailing current recommendations and a review of prior years' actions, including our assessment of whether they have been satisfactorily implemented.

Auditors must issue their draft annual report to those charged with governance by 30 November each year, reflecting the audit position and value for money assessment at that time, even if the 2024/25 audit is ongoing.

Responsibilities of the appointed auditor

We have undertaken our 2024/25 audit work in accordance with the Audit Plan that we issued on 11 April 2025. We have complied with the 2024 Code, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- whether the financial statements give a true and fair view of the financial position of the Council and its expenditure and income for the year; and
- Whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework.

Reporting by exception:

- if the annual governance statement does not comply with relevant guidance or is not consistent with our understanding of the Rushmoor Borough Council;
- the use of additional powers and duties, for example making written recommendations under Section 24 and Schedule 7 of the Act or making a report in the public interest; and
- if we identify a significant weakness in the Rushmoor Borough Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of **Rushmoor Borough Council**

The Council is responsible for the preparation of the financial statements, including the narrative statement and governance statement, in accordance with the CIPFA Code and for having internal controls in place to ensure these financial statements are free from material error. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Executive Summary (cont'd)

2024/25 conclusions

Financial statements	<p>As reported in our 23/01/2025 Audit Results Report, we issued a disclaimer of opinion on the Rushmoor Borough Council's 2020/21, 2021/22, 2022/2023 and 2023/24 financial statements under the arrangements to reset and recover local government audit.</p> <p>In 2024/25, we have continued to audit the closing balance sheet and in-year transactions. Although the level of assurance gained has increased, we have not yet obtained sufficient evidence to have reasonable assurance over all in-year movements and closing balances. As a result of the disclaimer of opinion on the 2023/24 financial statements, we do not have assurance over some brought forward balances from 2023/24 where we did not gain assurance (the opening balances). This means we do not have assurance over all 2024/25 in-year movements and the comparative prior year movements. We also do not have assurance over all the 2023/24 comparative balances disclosed in the 2024/25 financial statements. We also have not been able to complete all planned procedures to gain assurance on the valuation of property, plant & equipment and investment property in either 2023/24 or 2024/25 because of weaknesses in the quality of evidence provided and in certain assumptions adopted by the Council's valuer for assets valued at Existing Use Value and Fair Value.</p> <p>We therefore anticipate issuing a disclaimed 2024/25 audit opinion.</p>
Going concern	We have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	<p>On the basis of our work, having regard to the Code of Audit Practice 2024 and the guidance issued by the Comptroller and Auditor General in November 2024, we have identified the following significant weaknesses in the Authority's arrangements for financial sustainability for the year ended 31 March 2025:</p> <ul style="list-style-type: none">• Level of external borrowing.• Forecast budget shortfall over the medium term. <p>We are likely to report actual significant weaknesses in arrangements in respect of both of these risks in our 2024/25 audit report.</p>
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.

Executive Summary (cont'd)

2024/25 conclusions (cont'd)

Additional powers and duties	We had no reason to use our auditor powers at the date of this report.
Whole of Government Accounts	We have not yet concluded the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We cannot issue our Audit Certificate until these procedures are complete.
Certificate	We will issue our certificate subject to full completion of our 2024/25 financial statements procedures and work on the Council's Whole of Government Accounts submission.

Executive Summary (cont'd)

Value for money scope

Under the 2024 Code, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

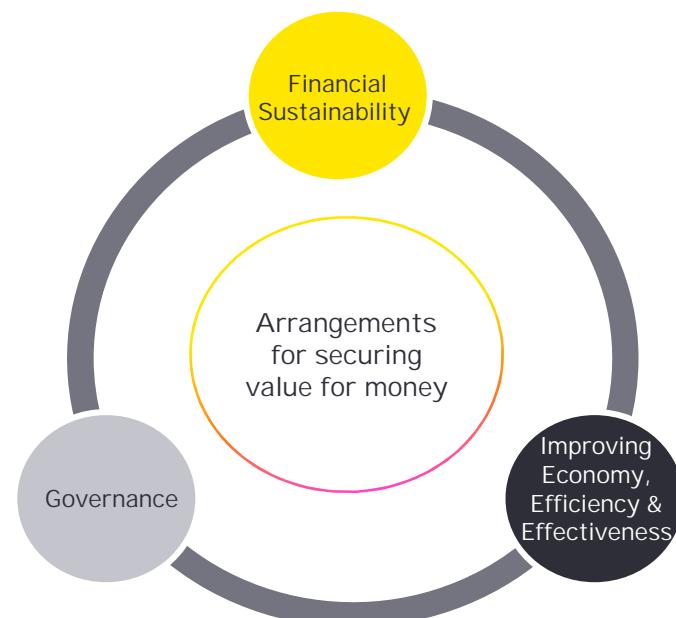
We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's report on the financial statements.

The specified 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.

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with the key Council officers;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.



Executive Summary (cont'd)

Reporting

Our commentary for 2024/25 is presented in Section 03. This section provides a summary of our understanding of the arrangements at the Council, as determined from our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2024/25 and up to the date of issuing this draft Auditor's Annual Report, which must be issued by 30 November. Recommendations for the current year are included in Appendix A. Our follow up of prior year recommendations is set out at Appendix B.

The final version of this report will be issued alongside the signed audit report concluding on the 2024/25 year.

In compliance with the 2024 Code, we are required to provide commentary against the three specified reporting criteria. The table below outlines these criteria, indicates whether a significant risk of weakness was identified during our planning procedures, and details our current conclusions regarding any significant weaknesses within your arrangements.

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	Risk 1 - Level of external borrowing Risk 2 - Forecast budget shortfall over the medium term	We expect to report actual significant weaknesses in respect of both risks identified.
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
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	No significant risks identified	No significant weakness identified

Executive Summary (cont'd)

Local Government Reorganisation

Local Government Reorganisation is expected to pose challenges for local authorities over the next year. During this period of change, the Council must maintain essential services and fulfil statutory duties. According to MHCLG guidance issued in July 2025, decisions made by the Council prior to reorganisation regarding ongoing service delivery and the medium-term financial strategy should focus on providing value for money for taxpayers and avoid limiting future decisions or sustainability of new councils.

The government has stated that it will issue directions under section 24 of the 2007 Act after Structural Changes Orders are made, specifying a person authorized to give consent on relevant matters and outlining how this authority should be exercised. MHCLG has noted these directions will follow previous precedents, requiring written consent from the successor council for land disposals and contracts exceeding a specified value.

To comply with MHCLG guidance and forthcoming directions, councillors and statutory officers need to be aware of their responsibilities and ensure that appropriate accounting and governance systems are maintained.

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2024 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

EY Transparency Report 2025

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 27 June 2025:

[EY 2025 Transparency Report](#)



02

Audit of financial statements

Audit of financial statements

Key findings

The Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

Our audit of the 2024/25 financial statements is substantially complete. We will report our findings in our Audit Results Report to the January Audit and Governance Committee.

Financial statement risks	
Significant risk	Conclusion
Misstatements due to fraud or error – Management override of controls	We have not identified any instances of inappropriate judgements or estimates being applied. Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business. During our testing, we identified a control observation pertaining to journal authorisation controls where there was no evidence that a journal has been reviewed. However, management had appropriate mitigating controls.
Misstatements due to fraud or error – capitalisation of revenue expenditure	Our work did not identify any material weaknesses in controls or evidence of material management override concerning the capitalisation of revenue expenditure. Our work did not identify any instances of inappropriate judgements being applied.
Valuation on investment property	Similar with prior year, we were unable to substantiate some key inputs and assumptions used in the valuation of land and buildings valued using Depreciated Replacement Cost (DRC), Equivalent Use Value (EUV) and Fair Value (FV). This includes PPE Other Land and Buildings valued at EUV, DRC and FV; and Investment Properties valued at FV. EY's valuation specialists (EYRE) applied their own judgments based on available market information and evidence provided by the Council and its external valuer. Results of EYRE review identified weaknesses in the quality of evidence provided and that certain assumptions adopted by the Council's valuer for assets valued at DRC and FV were not supportable or inconsistent with wider valuation practice. Due to the statutory backstop date of 27 February 2026, we will not be able to complete further procedures to resolve the judgmental differences or conclude on whether potential errors are more pervasive across the untested population.
IFRS 16 implementation	As at the date of this report, our work on IFRS 16 remains ongoing. However, we have identified misstatements relating to compliance with the disclosure requirements of IFRS 16.

Audit of financial statements

Financial Statement reporting assessment

Management, and the Audit and Governance Committee, as the Council's body charged with governance, have an essential role in supporting the delivery of an efficient and effective audit. Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit. The table over-page sets out our views on the effectiveness of the Council's arrangements to support external financial across a range of relevant measures.

In addition, the illustrative timescale for the process of re-building assurance set out in the NAO's Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01, together with our view of the Council's actual progress against that timescale, the reasons for that and what still needs to be done to successfully rebuild assurance is set out on page 15. The timetable set out in LARRIG 01 assumes that disclaimers for 2022/23 and all prior open audit years were issued by the statutory backstop date of 13 December 2024.

Audit of financial statements

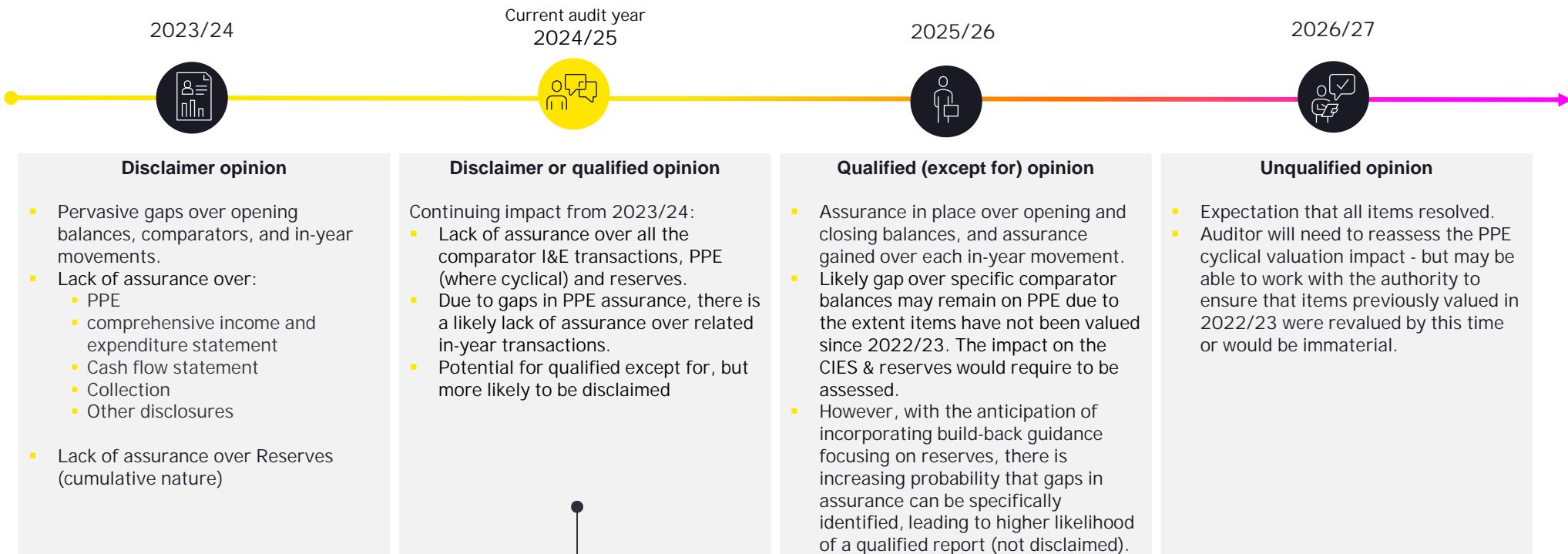
Financial Statement reporting assessment				
Area	Status			Explanation
	R	A	G	
Timeliness of the draft financial statements		Effective		The financial statements were published by the 30 th June 2025 deadline set out in the Accounts and Audit Regulations.
Quality and completeness of the draft financial statements		Effective		There were only a small number of non-material internal inconsistencies, typographical and arithmetic errors in the draft financial statements.
Delivery of working papers in accordance with agreed client assistance schedule		Effective		Working papers were provided to the agreed timetable.
Quality of working papers and supporting evidence		Requires improvement		The working papers and supporting evidence were generally of a high standard. However, for debtors and creditors, listings of closing balances were not provided, with only in-year transactions available. This led to additional time required to complete these sections.
Timeliness and quality of evidence supporting key accounting estimates		Requires improvement		In general, management provided timely and good quality supporting evidence in response to the majority of our audit requests. However, during our land and building and IP valuation, EYRE raised concerns during the review of the Council's external valuer's work, particularly regarding the provision of supporting evidence for the valuation of PPE and IP assets. The evidence and explanations provided were insufficient, leading to additional requests for clarification and further documentation. EYRE applied their own judgments based on available market information and evidence provided by the Council and its external valuer. Results of EYRE review showed that certain assumptions used by the external valuer were inconsistent with the wider valuation practice. Due to the statutory backstop date of 27 February 2026, we were unable to complete further procedures to resolve the judgmental differences or conclude on whether it resulted in misstatements in the financial statements. We raised a recommendation on this in the prior year which we do not consider has been addressed - see Section 06. To be able to fully restore assurance on the Council's financial statements it is essential that this issue is addressed by management.
Access to finance team and personnel to support the audit in accordance with agreed project plan		Effective		There were no issues with access to the finance team and key personnel.
Volume and value of identified misstatements		Requires improvement		A moderate number of misstatements that were above performance materiality in aggregate were detected as a result of our work across both the main Financial Statements and Disclosures. Management have indicated that these will be adjusted but we have not received the final Statement of Accounts.
Volume of misstatements in disclosure		Requires improvement		A moderate number of misstatements in disclosures were detected in our work.

Audit of financial statements

Progress to full assurance

Set out below is the illustrative timescale for the process of re-building assurance set out in the NAO's Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01. The timetable set out in LARRIG 01 assumes that disclaimers for 2022/23 and all prior open audit years were issued by the statutory backstop date of 13 December 2024.

EXPECTED STATUS



CURRENT AUDIT STATUS OF RUSHMOOR BOROUGH COUNCIL

- The Council's progress is in line with the expected timescales for rebuilding assurance set out in LARRIG 01.
- Consistent with the prior year, we identified weaknesses in the quality of evidence provided and assumptions made by the Council's external valuer for assets valued using DRC/EUV/FV method and therefore were unable to gain assurance over the valuation of property, plant & equipment and investment property accounts for the in the financial statements. To be able to rebuild assurance on the Council's financial statements in line with the expected timescales, it is now essential that this issue is addressed by management



03

Value for Money commentary

Value for Money

The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

Our responsibilities

Under the revised NAO Code we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period. Our summary is below:

	Significant risk identified	Significant weakness identified	Other matters identified
<p>Financial sustainability How the Council plans and manages its resources to ensure it can continue to deliver its services.</p> 	<p>Risk 1 – Level of external borrowing Risk 2 – Forecast budget shortfall over the medium term</p>	<ul style="list-style-type: none">The current level of debt and the impact of increased borrowing costs presents a risk to the Council's financial sustainability.The Stability and Resilience Reserve is being used to balance the budget in the short-term and will be depleted over the MTFS period, if no savings materialise. Therefore, the Council will have insufficient reserves in 2027/28 to set a balanced budget or cover further projected deficit.	None at this stage and subject to completion of the audit.
<p>Governance How the Council ensures that it makes informed decisions and properly manages its risks.</p> 	<p>None at this stage and subject to completion of the audit.</p>	<p>None at this stage and subject to completion of the audit.</p>	None at this stage and subject to completion of the audit.
<p>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.</p> 	<p>None at this stage and subject to completion of the audit.</p>	<p>None at this stage and subject to completion of the audit.</p>	None at this stage and subject to completion of the audit.



VFM commentary: Financial Sustainability

Financial sustainability: Our audit procedures

Our audit procedures obtained assurance over the arrangements in place for the Financial Sustainability sub-criteria set out in AGN03:

- How the body 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 body plans to bridge its funding gaps and identifies achievable savings;
- How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the body 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 body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Significant risks identified during planning procedures

Within our Audit Planning Report, we identified one risk of significant weakness in the Council's arrangements for financial sustainability. Following further work we have now disaggregated this into two risks of significant weakness relating to financial sustainability. In 2023/24, we identified one recommendation in relation to financial sustainability. We summarise our consideration of the Council's progress against the recommendation in Appendix B and are not satisfied that it has been implemented satisfactorily. The Council's underlying arrangements in relation to financial sustainability are not significantly different in 2024/25.

Overview of our conclusions

Based on the work performed, we have identified two significant weaknesses in the Council's arrangements that we intend to report by exception in our audit report.

Recommendations

Recommendation 1 - Urgently identify recurrent savings to bridge the budget gap forecast by the Council's updated Medium Term Financial Strategy.

Recommendation 2 - Improve delivery of the asset disposal programme, both in terms of the identification of asset sales and level of capital receipts achieved to reduce the ongoing cost pressures this creates on the Council's revenue budget.

Recommendation 3 - Continue to seek to replace short-term with long-term borrowing to reduce the Council's exposure to interest rate risk and allow for more certainty in its medium-term financial planning arrangements.



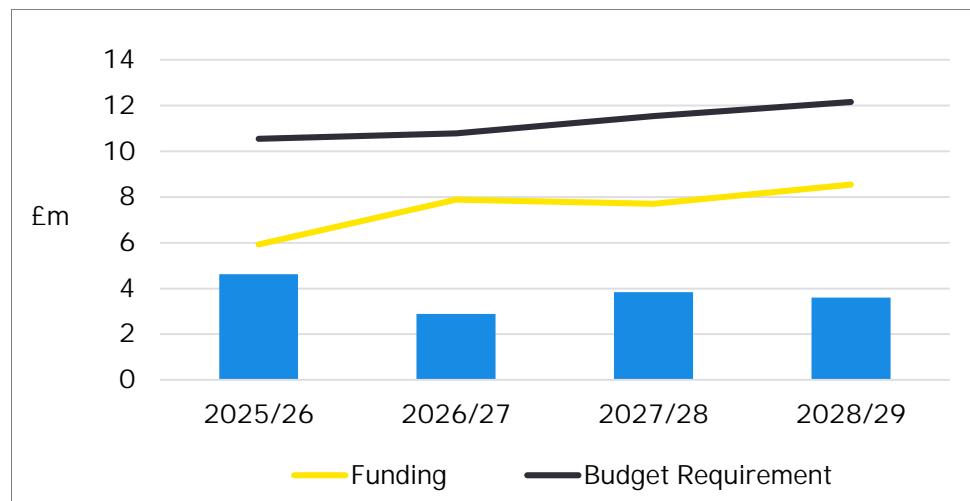
Financial Sustainability considerations

Medium Term Financial Strategy

The Council set its General Fund Budget 2025-26 and its Medium-Term Financial Strategy (MTFS) 2025-26 to 2028-29 on 27 February 2025. This 2025/26 budget is balanced, but only through the use of reserves. The MTFS projects a cumulative gross budget deficit of £16.2 million by 2028/29 and a budget gap after use of earmarked reserves of £14.9 million. The MTFS highlighted the following key challenges and risks:

- Interest on Borrowing: The main driver of the deficit is high interest payments on £167 million of short-term borrowing, which was exposed to rising interest rates.
- Inflation: Previous budgets underestimated inflation, leading to higher costs.
- Asset Sales: The plan relies on £40 million of asset sales to reduce borrowing and associated costs, but only £18.7 million of sales have been identified so far.
- Savings Requirement: The Council must achieve recurrent savings of £3.8 million per year by 2027/28, with £1.8m needed in 2025/26.
- Reserves: Use of reserves is projected to reduce available balances to £3.6 million by 2028/29, leaving little flexibility for unexpected costs.

Exhibit 1: The Council's MTFS outlines a cumulative gap of £14.9 million by 2028/29





Financial Sustainability considerations

Outturn position

The Council approved a 2024/25 budget in February 2024 with a projected deficit of £5.38 million, expecting to mitigate this with £740,000 of in-year savings and a planned reserve drawdown of £4.64 million. At the end of the 2024/25 year, total reductions in net expenditure of £5.16 million had been delivered against budget, meaning only £224,000 was required from reserves at year end. The Council ended the year with £10.93 million in useable reserves after the £224,000 draw down at year end and £920,000 planned draw down in the period. Over and above this there was an additional £3.06m in ringfenced reserves mostly relating to government grants.

Actual capital expenditure for 2024/25 was £14.7 million compared to planned capital expenditure of £22.15 million. Of the £7.44 million variance, £3.7 million of was due to project slippage, with budgets carried forward to 2025/26. Of the Council's major projects, Union Yard was completed with a £1.67m overspend; crematorium refurbishment was delayed, and the Galleries scheme is no longer proceeding with Homes England funding.

Exhibit 2: There was a £1.8 million favourable services outturn in 2024/25.

Exhibit 2: The Council recorded an overall underspend against budget in 2024/25

Services outturn by nature	Budget £m	Expenditure £m	(Underspend) /Overspend £m
Staff	14.2	13.5	(0.75)
Staff – non pay	2.2	2.0	(0.21)
Transport	0.07	0.05	(0.02)
Premises	3.2	2.6	(0.63)
Supplies and Services	11.2	10.7	(0.52)
Third Party payments	7.2	6.9	(0.31)
Income	(28.1)	(27.4)	0.69
Total	10.1	8.4	(1.8)

*The information presented in Exhibit 2 is based on the provisional 2024/25 outturn report presented to the Cabinet on 9 July 2025 and does not reflect late changes reflected in the financial statements or adjustments arising as a result of the 2024/25 audit.



Financial Sustainability considerations

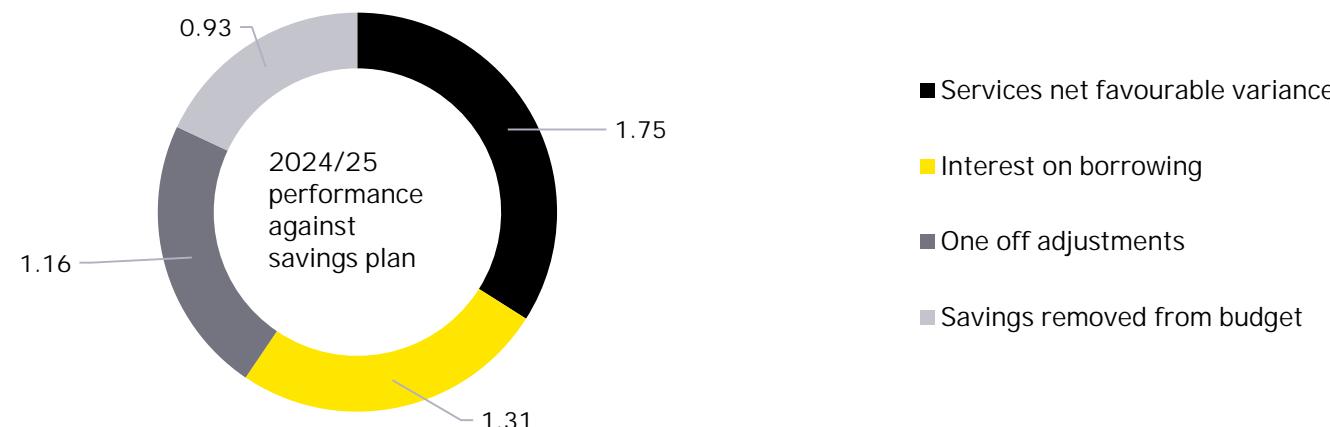
Savings plans

In 2024/25 the Council of the total savings requirement included in the budget of £5.16 million, only £1.75 million was delivered through budget management. £926,000 of saving requirements were removed from the budget. The remaining £2.48 million was delivered by a combination of one-off adjustments and lower interest of borrowing and was therefore non-recurrent in nature (see Exhibit 3).

For 2025/26, the savings target of £1.8 million originally included in the budget has already been achieved. By the end of September 2025 £2.1 million of savings had been delivered in total, including £1 million from a government policy extension on pooled fund investments. The remaining £1.1 million was delivered non-recurrently through reductions identified based on a temporary budget adjustments. Looking forward to 2026/27 the Council needs to deliver a further £2.78 million of total savings, and a further £3.78 million in both 2027/28 and 2028/29. The opportunity to do this from non-recurrent measures cannot be guaranteed, meaning it is essential that recurrent savings are identified as soon as possible to address these gaps.

Exhibit 3: Of the £5.16 million savings planned for 2024/25 only £1.75 million were delivered through budget management.

Exhibit 3: Only £1.75 million of £5.16 million of budgeted savings were delivered through budget management



Financial Sustainability considerations

Significant Risk: Forecast budget shortfall over the medium term

Medium Term Financial Strategy - Mid year review (October 2025)

A mid-year review of the MTFS up to 2028/29 as of September 2025 was presented to Cabinet on 14 October 2025. The MTFS is under pressure due to increased costs, delays in savings delivery and leadership changes, including the departure of the Chief Executive. The 2025/26 savings target of £1.8 million had been achieved by September 2025, but most savings are one-off and must be found again in 2026/27, with an additional £1 million required. There is a £16.15 million deficit over the MTFS term, and a Financial Recovery Plan is in place to address the challenge. To deliver the plan, the budget will continue to require the implementation of cost reduction, efficiency savings and capital receipts to reduce capital costs whilst drawing down reserves. While the 2025/26 budget is balanced, this was achieved by drawing down on reserves. There remains a gap between estimated spend and funding streams for 2026/27 up to 2028/29. Should the Council not be able to identify a permanent reduced cost base there is a significant risk this will lead to insufficient reserves to call upon to prepare a balanced budget in the 2026/27 financial year and beyond. We consider the Council's reserves position further on the following page.

Exhibit 4: The re-procurement of the Serco waste contract and other cost pressures total £815,000 in 2026/27, rising to £1.5 million by 2027/28. This causes a forecast increase in the revenue deficit from £16.2 million to £20 million.

Exhibit 5: Reserves are projected to be lower than previously estimated, with £4.2m remaining if all savings are achieved and no further reserve-funded budgets are approved.

Exhibit 4: The Council's revised cumulative revenue deficit of £20 million by 2028/29

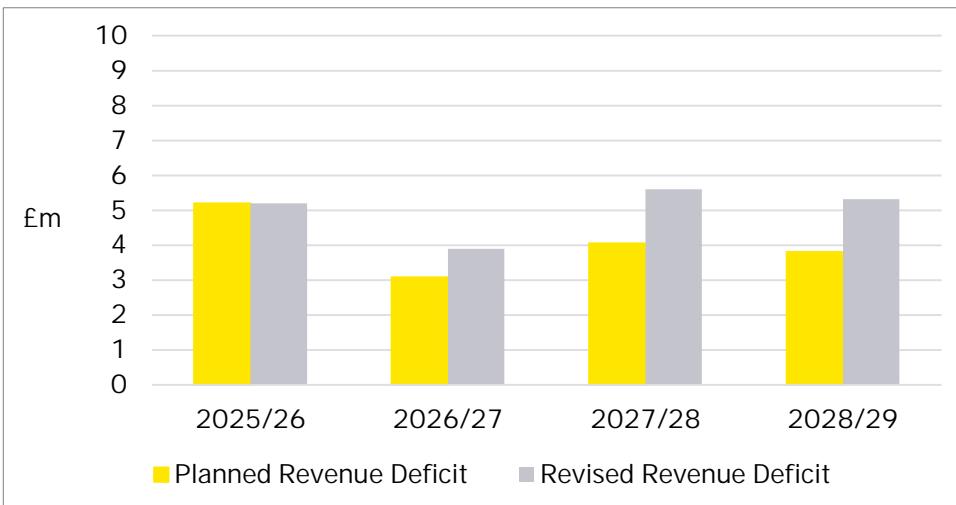
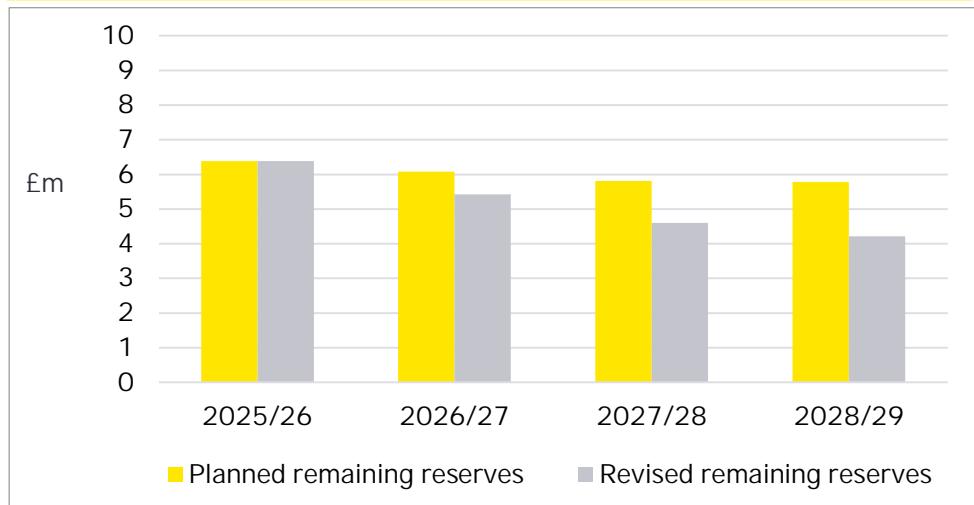


Exhibit 5: The Council's revised reserve position of £4.2 million by 2028/29



Financial Sustainability considerations

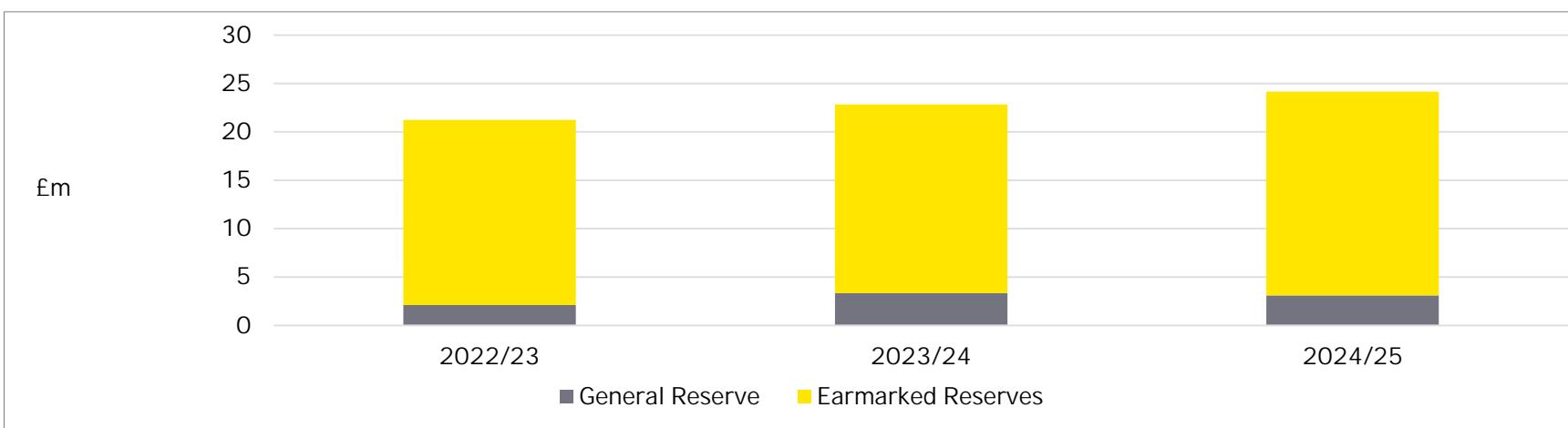
Significant Risk: Forecast budget shortfall over the medium term (continued)

Reserves

The Council holds a number of financial reserves, both revenue and capital. Some of these are internally earmarked and some have other conditions attached. There is also a General Fund and Stability and Resilience Reserve which are specifically available to support the financial pressures faced by the Council. The General Fund balance is where any general overspend/underspend on the revenue budget is transferred to or any general overspend is funded from. The Council's Reserves Strategy outlines that the minimum reserves to be held as uncommitted general funds is £2 million.

Exhibit 6: The year end General Reserve balance of £3.1 million is higher than the minimum balance of £2 million minimum level.

Exhibit 6 : The Council's unallocated General Reserve fell by £239k in 2024/25



Based on our consideration of both the recent updates to the MTFS and the Council's current reserves position it is clear further savings still need to be identified and delivered on a recurrent basis to bridge the widening forecast gap between funding available and spending. The current approach of using reserves to balance the budget is not sustainable. We are likely to consider the need to further develop arrangements to address this to be a significant weakness in the Council's arrangements for financial sustainability and reflect this in our audit report. We raise the following recommendation for improvement.

Recommendation 1

Urgently identify recurrent savings to bridge the budget gap forecast by the Council's updated Medium Term Financial Strategy.



Financial Sustainability considerations

Significant risk: Level of external borrowing

One of the main pressures on the Council's finances continues to be the high interest payments due on its high level of external borrowing. At the end of 2024/25, the Council held total borrowing of £166 million. The total value of external borrowing held had increased slightly from the prior year, although the level of borrowing held short-term had reduced from £157 million in 2023/24 to £102 million in 2024/25. Total borrowings at the end of 2024-25 had increased to 107% of the Council's liability benchmark and 95% of its Capital Financing Requirement (CFR). The ability to borrow further after 2024/25 judged against CFR is therefore very limited. The increase in the Council's cash balance of £21 million at the end of 2024-25 was primarily due to short-term investments being redeemed close to the end of the year. As part of financial planning there is an aim to secure longer-term borrowing for cost certainty, but market conditions may force reliance on short-term, potentially more expensive borrowing.

As part of the recent review of the Council's financial resilience performed by the Chartered Institute of Finance and Accountancy (CIPFA) it was identified that the Council should seek to dispose of £40 million of its long-term assets to generate capital receipts that could be used to reduce the level of external borrowing and mitigate the adverse impact of the costs of this on its revenue budget. Based on the MTFS update in February 2025, the Council had identified potential sales estimated at £11.9 million, of which £3.3 million were expected to be received by the end of 2024/25 and a further £8.6 million in 2025-26. Based on the draft 2024/25 financial statements submitted for audit, the Council had only generated £2.9 million of capital receipts in the year. The Council therefore urgently needs to both identify further potential asset sales and increase the level of capital receipts generated.

We are likely to consider the need to further develop arrangements to address these points to be a significant weakness in the Council in the prior year we raised a recommendation that the Council should:

- Identify and deliver a £40 million asset disposal programme to achieve the Council's interest and cost reduction savings targets.
- Seek to replace short-term with long-term borrowing to reduce the Council's exposure to interest rate risk and allow for more certainty in its medium-term financial planning arrangements.

Although some progress has been made in reducing the level of short-term borrowing held, we conclude that the prior year recommendation has not been addressed and raise similar recommendations for improvement in the current year Council's arrangements for financial sustainability and reflect this in our audit report

Recommendations 2 and 3

Improve delivery of the asset disposal programme, both in terms of the identification of asset sales and level of capital receipts achieved to reduce the ongoing cost pressures this creates on the Council's revenue budget.

Continue to seek to replace short-term with long-term borrowing to reduce the Council's exposure to interest rate risk and allow for more certainty in its medium-term financial planning arrangements.



VFM commentary: Governance

Governance: Our audit procedures

Our audit procedures obtained assurance over the arrangements in place for the Governance sub-criteria set out in AGN03:

- How the body monitors and assesses risk and how the body gains assurance over the effective operations of internal controls, including arrangements to prevent and detect fraud;
- How the body approaches and carries out its annual budget setting process;
- How the body 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 body 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; and
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer and member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services.

Significant risks identified during planning procedures

Within our Audit Planning Report, we identified no risks of a significant weakness in the Council's governance arrangements. In prior years, no significant weaknesses were identified, and there are no outstanding recommendations relating to prior years. The Council's underlying arrangements in relation to governance are not significantly different in 2024/25.

Overview of our conclusions

Based on the work performed, the Council had proper arrangements in place in 2024/25 to make informed decisions and properly manage its risks.



Governance considerations

Annual Governance Statement (AGS)

The Annual Governance Statement (AGS) is prepared in accordance with the seven core principles outlined by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework, 'Delivering Good Governance in Local Government'. The Service Manager – Audit (Financial Governance Manager) is responsible for compiling the AGS, incorporating input from key officers across the Council as detailed within the AGS itself. The statement is initially submitted to the Corporate Management Team (CMT) for discussion and updated to include any potential significant governance issues. Subsequently, the revised AGS is presented to the Corporate Governance Group for review and comments. After this stage, the AGS is forwarded to the Executive Leadership Team (ELT) for approval. The draft AGS is then submitted to the Audit and Governance Committee for feedback and authorisation to be signed by the Chief Executive and the Leader of the Council, after which it is published within the Statement of Accounts.

The key action areas which will be reviewed by the Corporate Governance Group and regularly reported to the Audit and Governance Committee, include, follow up on actions as per the financial resilience plan, review of Corporate Peer Challenge and implementation of actions arising from both the Council's self-assessment against CIPFA Financial Management Code and its self-assessment against the seven characteristics of good governance.

Risk Management

The Council's Risk Management Policy ensures that risks, both threats and opportunities, are identified, assessed, and managed effectively to support delivery of strategic objectives and maintain public confidence. The Council oversees the management of risk through the work of CMT, with all significant risks identified through risk management periodically reviewed by CMT. An updated Risk Management Policy and procedure document was agreed by Cabinet on 14 January 2025. The updated policy is designed to allow risk to be managed and mitigated consistently across the Council which contributes to the Council's legal obligations on risk management. Enhancements include the:

- Introduction of a strategic risk appetite framework.
- Clearer guidance on reporting when risks become issues.
- Alignment with Council priorities and CIPFA recommendations.
- Greater focus on identifying opportunities as well as threats.

The Strategic Risk Register documents the factors that could impact on the future delivery of the Council Plan and Council business performance and flags the risks that necessitate the highest level of attention from senior management. It is presented quarterly to the Cabinet to consider updates and changes.

In addition to its risk management policy, the Council maintains several internal policies, including Anti-fraud, Bribery and Corruption, Whistleblowing, Anti-Money Laundering, and Gifts and Hospitality.



Governance considerations

Internal audit arrangements

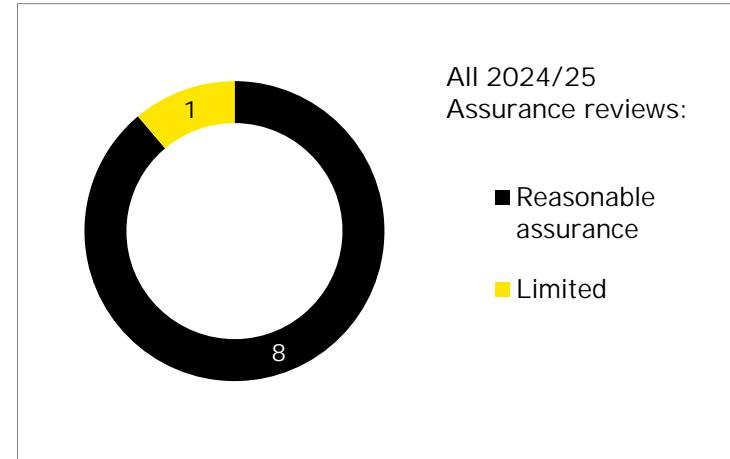
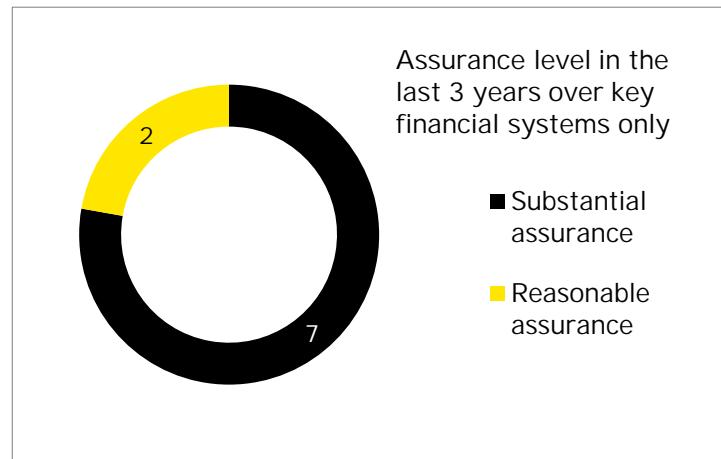
Internal audit is now being delivered at the Council by the Southern Internal Audit Partnership (SIAP). In the current year, to provide further clarity, separate opinions were provided for the internal control environment, risk management and governance arrangements. Assurance over all three areas of the framework was concluded as reasonable. Out of the nine assurance reviews carried out in the current year, eight were assessed as reasonable assurance and one as limited assurance. The limited assurance related to the effectiveness of financial reviews. A self-assessment against the Public Sector Internal Auditing Standards (PSIAS) has been carried out by SIAP and concluded that the internal audit is fully compliant with the standards.

Even though the overall opinion risk assessment was assessed as reasonable, internal audit concluded that there is insufficient evidence of detailed scrutiny over the risks, follow up actions, and mitigations suggested to minimise the risk from materialising. To seek to address this, the Council appointed an external consultant to assist with this process. As set out on the previous page an updated Risk Management Policy and procedure document was also agreed by Cabinet on 14 January 2025.

The Council obtained Public Services Network certification, confirming that IT network controls are adequate and including suggestions for further improvement.

The assurance levels issued by internal audit over last 3 years in reviews of key financial systems have been assessed as either substantial or reasonable. The review of follow ups carried out in 2024/25 also show an improvement in areas which have previously been given a limited assurance.

Exhibit 7: Internal audit's assurance





Governance considerations

Informed decision making and member challenge

The Council's constitution sets out its governance arrangements and decision-making process. A Policy and Projects Advisory Board provides pre-scrutiny to support the Cabinet and Council in the development of policies and projects that will deliver the Council's priorities. An Overview and Scrutiny Committee reviews past or planned executive decisions, monitors Council performance and holds other public service providers to account.

In order to ensure informed decision making within the Council, the Council undertook the following reviews during the current year:

- A Local Government Association Peer Challenge Review was carried out in June 2024, which included the review of the Council's Governance Structure. Following the review, action plans have been put in place to implement the recommendations made. Implementation is monitored and reported on as part of the performance management process and specific officer groups have been set up to action the work required. Progress towards the implementation of the actions is also reported on a quarterly basis to Cabinet.
- A CIPFA Financial Resilience Review commissioned by the Council which identified significant challenges to the Council's future financial sustainability. The review, which was referenced in the General Fund Budget 2024-25 and MTFS 2024/25 to 2027/28, concluded that without reducing annual spending to align with annual income the Council will not be able to set a balanced budget in 2026/27. Consequently, without mitigation, the Council is not financially sustainable in the medium-term. This is in part driven by the Council's level of debt. A Financial Resilience Plan (FRP) was put in place to address some of the issues identified from the reviews and regular updates are provided to senior management for review and scrutiny of progress towards the implementation of the action plan. We have considered progress against key issues flagged in the FRP in the section of this report on financial sustainability.
- The Council undertook a self-assessment against the CIPFA Financial Management Code (the Code). This concluded that actions were required to ensure full compliance with the Code
- The Council undertook a self-assessment against the governance characteristics outlined in the Centre for Governance and Scrutiny's Seven Key Characteristics. The analysis revealed strong governance practices within the Council but areas for improvement were identified.



Governance considerations

Key changes in management structure

The independent governance and financial reviews carried out by the Council which included CIPFA, SOLACE, and LGA Corporate Peer Challenge, highlighted the need for urgent cost reduction and improved financial sustainability. As a result, there has been a review of the Council's management structure to identify savings and improve alignment with Council priorities and new administration needs. After the initial option was not accepted by Members, a revised option was put forward to make the Chief Executive post redundant and create an Interim Managing Director/Head of Paid Service role. The new structure was presented at a full Council meeting on 11 April 2025 and was unanimously accepted. This was designed to save nearly £180,000 a year and streamline leadership. Paul Shackley, the previous Chief Executive, left the council on the 6 May 2025 for reasons of redundancy.

A recruitment process in line with the constitution was concluded on the 11th March 2025 where Members of the Executive Leadership Team were all invited to apply for the role. The recruitment panel recommended that Ian Harrison, Executive Director be appointed to the role with effect from the 11th April 2025 for an initial period of 6 months. Ian Harrison in the new role of Head of Paid Services could not continue being the Council's Monitoring Officer. It was proposed that the role best suited for this was the Council's Corporate Manager – Legal Services, who has subsequently been made Monitoring Officer. The Head of Paid Service was tasked with bringing forward further options for restructuring, budget savings, and plans to deliver Council priorities.

At the Council meeting held on 25 September 2025, it was recommended and confirmed that the current role of Interim Head of Paid Services and Monitoring officer be extended.



VFM commentary: Improving economy, efficiency and effectiveness

Improving economy, efficiency and effectiveness: Our audit procedures

Our audit procedures include:

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

Significant risks identified during planning procedures

Within our Audit Planning Report, we identified no risks of a significant weakness in the Council's arrangements for improving economy, efficiency and effectiveness. In prior years, no significant weaknesses were identified, and there are no outstanding recommendations relating to prior years. The Council's underlying arrangements in relation to improving economy, efficiency and effectiveness are not significantly different in 2024/25.

Overview of our conclusions

Based on the work performed, the Council had proper arrangements in place in 2024/25 in how it uses information about its costs and performance to improve the way it manages and delivers its services.



Improving economy, efficiency and effectiveness considerations

Financial and performance information

There is regular reporting to Chief Officers and to those charged with governance on all significant matters providing sufficient detail and data for scrutiny, oversight and decision making. This includes identification of any new opportunities, risks or issues, and their management. The finance reports communicate operational information, such as financial performance, performance against non-financial key performance indicators and any other relevant information.

A line-by-line budget review was conducted of budgets as part of the MTFS review and budgeting setting for 2024/25 which looked at in year spend and identifying areas for future pressures or savings. During the October, the S151 officer presented a mid-year review of the Council's performance against the current MTFS. This is being adversely impacted by increased cost pressures identified in the February 2025 budget setting report and delays in identifying and delivering savings, compounded by the Local Government Review's significant impact on strategic leadership capacity and changes within the senior management team due to the departure of the Chief Executive. The main concern being the savings run rate being well below the amount needed with most of the current year savings being non recurrent. The review also highlighted that a repeat of the current year's performance will result in insufficient reserves to call upon to prepare a balanced budget from 2026/27. We have considered this further in the financial sustainability section of this report.

Procurement and contract management

The Council has a procurement strategy approved by Cabinet, which includes a procurement action plan and an ethical procurement statement. This sets out a clear definition of procurement at the entities, the Council's vision for procurement and clear policies for procurements, including policies to reduce risk, to counter fraud and to work within relevant legislation. There is clear governance, structure and responsibilities for procurement across the Council.

The Service Manager for Procurement is responsible for monitoring procurement activity across the Council, including:

- Coordinating this procurement strategy on behalf of the Council and leading on the implementation of the procurement aims.
- Providing guidance to contract owners in the control and management of contracts.
- Development and maintenance of procurement documentation, procedures, guidance and web pages to publicise procurement plans, information and advice to potential suppliers and staff; to comply with transparency requirements and promote the vision and strategy.
- Providing assistance to contract owners in the planning and co-ordination of improvement of current contracts, business continuity, exit strategies and post contract appraisals and reviews.
- Ensuring the procurement process eliminates the potential for fraud and favouritism towards any supplier.
- Supplier analysis to identify supplier base, spend per supplier, spend per category.
- Coordination and monitoring of the Council's contracts register to allow improved advanced planning for procurement and contract management activity.
- Organising training for staff, to include specific procurement training, induction and Contract Standing Orders.



Improving economy, efficiency and effectiveness considerations

Partnership working

Included within the Council's corporate plan are performance measures in relation to working with partners. These are monitored by the Council as part of the Corporate Plan performance monitoring.

One of the Council's main partnership is with Farnborough Airport Ltd who operates Farnborough Airport (the Airport). The Airport operator prepares monitoring reports quarterly and annually as a condition of the original planning permission for the airport. These reports cover Air quality and odour, complaints and noise and track monitoring. Based on the latest report, all environmental monitoring undertaken has been implemented in accordance with the regulatory requirements and those of the Town and Country Planning Act Section 106 Agreement.

Performance assessment

The Council has established processes and other arrangements to evaluate service performance and identify areas of improvement. These include the review of the Corporate Risk Register, budget monitoring reports and external inspections and action plans based on external reviews. Agreed action plans are considered by the Cabinet and reported to the Council. The Council has an established Corporate Plan. This has four themes which cover both service targets and financial targets. Each theme has performance measures and a councillor and officer lead who has responsibility for specific measures. Measures are monitored regularly and reported upon quarterly to assess performance and identify areas for improvement.



04 Appendices

Appendix A – Recommendations from current year

Recommendations from 2024/25

The table below sets out the recommendations arising from the value for money work for the year 2024/25.
All recommendations have been agreed by management.

Issue	Recommendation	Management response
Financial sustainability - Forecast budget shortfall over the medium term.	Urgently identify recurrent savings to bridge the budget gap forecast by the Council's updated Medium Term Financial Strategy.	Work is underway, senior capacity and focus has been a challenge on this priority. Consideration will be required in the senior management restructure to address this.
Financial sustainability - Level of external borrowing.	Improve delivery of the asset disposal programme, both in terms of the identification of asset sales and level of capital receipts achieved to reduce the ongoing cost pressures this creates on the Council's revenue budget.	Management will be reviewing the capacity and capability to deliver currently identified disposals, and identification of further disposals to reduce the CFR.
Financial sustainability - Level of external borrowing.	Continue to seek to replace short-term with long-term borrowing to reduce the Council's exposure to interest rate risk and allow for more certainty in its medium-term financial planning arrangements.	Progress has been made, as at end of October only 14% of borrowing was due in less than 1 year compared to one year ago, 60% is between 1 and 2 years and 26% between 2-5 years, further opportunity to extend borrowing maturity structure will be in April to June 2026 when the next replacement borrowing is due.

Appendix B – Recommendations from previous years

Recommendations brought forward from previous year

The table below sets out the recommendations arising from the value for money work in the prior year, 2024/25, and progress made in the current year.

Issue	Recommendation	Management response
Financial sustainability	<p>The Council needs to fully implement and action its Financial Resilience Plan which contains a range of medium and shorter-term actions designed to ensure its financial sustainability. Specifically:</p> <ul style="list-style-type: none">• Develop and implement appropriate arrangements to deliver a permanent removal from the base budget of £0.5 million each year for the four years commencing 2024/25.• Identify and deliver a £40 million asset disposal programme to achieve the Council's interest and cost reduction savings targets.• Seek to replace short-term with long-term borrowing to reduce the Council's exposure to interest rate risk and allow for more certainty in its medium-term financial planning arrangements.	<p>Based on our current year review of the Council's financial sustainability arrangements the recommendation is not yet addressed. We have therefore raised similar recommendations for improvement in the current year.</p>

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