Three Rivers District Council

Auditor’s Annual Report

Year ended 31 March 2025

November 2025

Contents

Headlines from our audit

Headlines from our audit

Purpose of this report

This Auditor's Annual Report provides a summary of the findings and key issues arising from our audit of the Council for 2024/25. This report has been prepared in line with the requirements set out in the Code of Audit Practice and supporting guidance published by the National Audit Office and is required to be published by the Authority alongside the annual report and accounts.

Our responsibilities

Financial statements

We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Authority and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the CIPFA/LASSAC Code of Practice in Local Authority Accounting ('the Code').

Due to the challenges of undertaking an audit where the previous 4 years have been disclaimed because of the local authority backstop, it will not be possible to regain full assurance over the financial statements for 2024/25. The audit is currently in progress but there will not be enough time for us to undertake sufficient work to support an unmodified audit opinion ahead of the backstop date of 27 February 2026. This is due to the limitations imposed from the lack of assurance on opening balances and closing balances in key areas. We therefore intend to disclaim our audit report.

Narrative report and Annual Governance Statement

We assess whether the Narrative report and Annual Governance Statement is consistent with our knowledge of the Authority.

We are unable to conclude the other information included in the statement of accounts is consistent with our knowledge of the Council and Group and the draft financial statements. This is because it will not be possible to undertake sufficient audit work to reach a conclusion before the statutory backstop date of 27 February 2026.

Value for money

We are required under Section 20(1)c of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness (value for money) in its use of resources and provide a summary of our findings in the commentary in this report.

We are required to report if we have identified any significant weaknesses as a result of this work.

We have not identified any significant weaknesses in the arrangements for securing at economy, efficiency and effectiveness in the use of resources at the Council. Further detail is provided in this report.

Headlines from our audit

Statutory powers

We may exercise other powers we have under the Local Audit and Accountability Act 2014. These powers 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.

Public interest report

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 Authority is required to consider it and to bring it to the attention of the public.

We have not issued a Public Interest Report this year.

Statutory recommendations

We may make written recommendations to the Council under Schedule 7 of the Local Audit and Accountability Act. If we do this, the Authority 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.

We have not made any statutory recommendations this year.

Advisory notice

We may issue an advisory notice if we believe that the Council, or an officer of 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 Authority is required to stop the course of action for 21 days, consider the notice and then notify us of the action it intends to take and why.

We have not issued an advisory notice this year.

Judicial review

We may make an application for judicial review of a decision of the Council, or of a failure to act by the Council, which it is reasonable to believe would have an effect on the accounts of that body.

We did not make an application for judicial review this year.

Application to the court

We may apply to the courts for a declaration that an item of expenditure the Authority has incurred is unlawful.

We have not applied to the courts this year.

Headlines from our audit

Findings and recommendations

Findings from our financial statements audit

Our financial statements audit is currently in progress and due to conclude by the statutory backstop of 27 February 2026. Detailed findings from our audit of the financial statements, including our consideration of significant risks, will be communicated in the following reports:

- audit opinion on the financial statements for the year ended 31 March 2025
- draft audit completion (ISA 260) report to Those Charged with Governance

Our draft audit completion report will be reported to the Council's Audit Committee in February 2026.

Requests for our audit completion (ISA260) report should be directed to the Council.

Recommendations arising from our financial statements audit

Recommendations relating to internal controls and other matters arising from our financial statements work will be contained in the audit completion (ISA 260) report.

From our work to date, we have not identified any recommendations relating to the financial statements audit which indicate significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in the Council's use of resources and, as such, would not be considered key recommendations. Should any such key recommendations be raised during the remainder of our audit work we will report these in our audit completion report and our auditor's report (opinion) in February 2026.

Key recommendations arising from our value for money work

We provide a summary of our findings in respect of value for money in the commentary in this report.

Where we identify significant weaknesses as part of our review of the Council's arrangements to secure value for money, we make key, or essential, recommendations setting out the actions that should be taken by the Council.

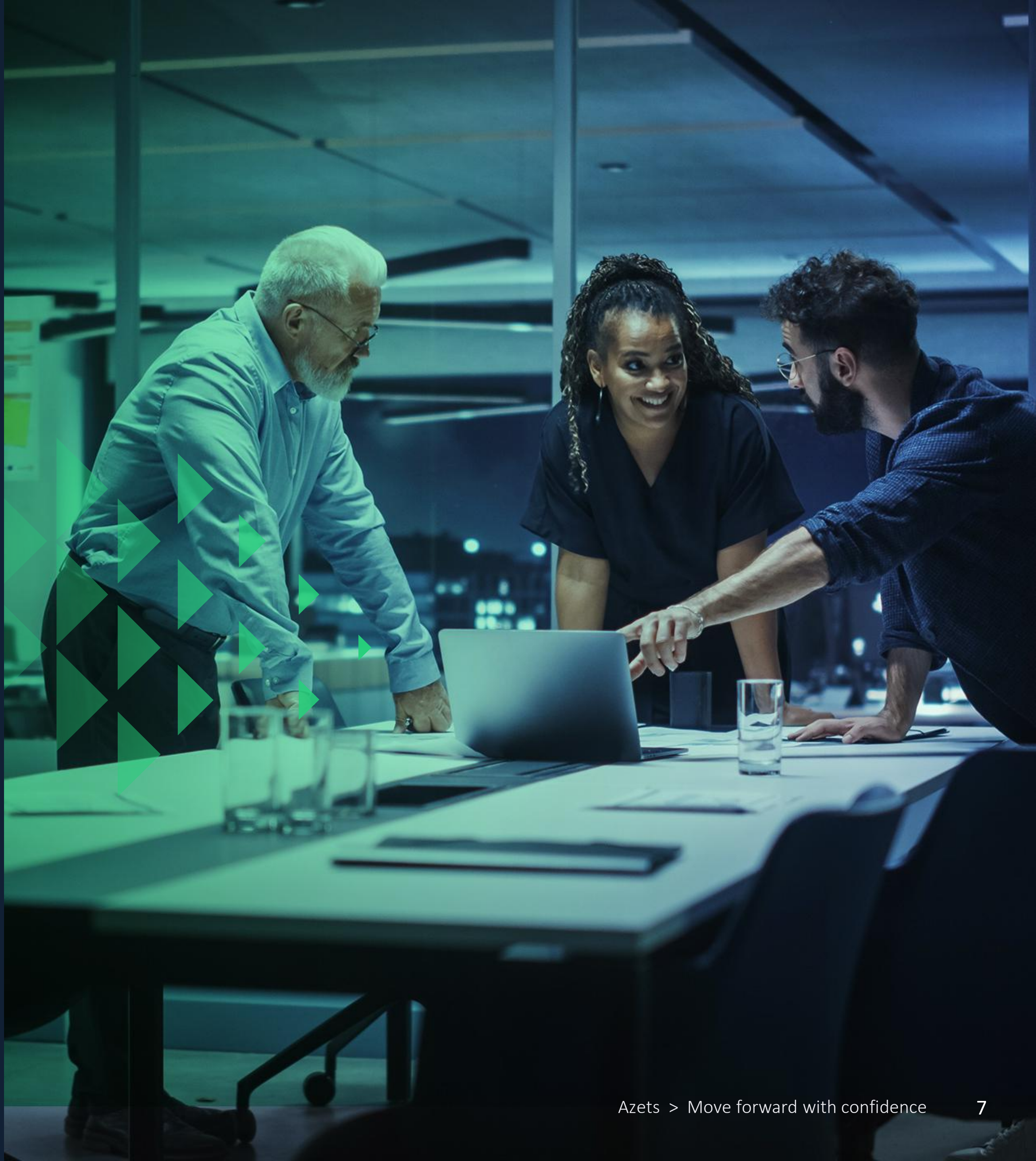
We have not made any key recommendations this year.

Other recommendations arising from our value for money work

We make other recommendations if we identify areas for improvement which do not relate to identified significant weaknesses

We have raised other recommendations to support the Council's ongoing improvement and followed up on the recommendations raised in the prior year.

Value for money



Value for money

We are required to consider whether the Council has established proper arrangements to secure economy, efficiency and effectiveness in its use of resources, as set out in the NAO Code of Practice 2024 and the requirements of Auditor Guidance Note 3 ('AGN 03').

We have completed our value for money work. Our detailed findings are reported in the following commentary in this report.

We have not identified any significant weaknesses in the Council's arrangements and so are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Reporting criteria	Planning – risk of significant weakness identified?	Final – significant weakness identified?	Recommendations made		
			Statutory	Key	Other
Financial sustainability How the body plans and manages its resources to ensure it can continue to deliver its services	No	No	No	No	Yes
Governance How the body ensures it makes informed decisions and properly manages risk	No	No	No	No	Yes
Improving economy, efficiency and effectiveness How the body uses information about its costs and performance to improve the way it manages and delivers its services	No	No	No	No	No

Value for money

Councils are responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. This includes managing key operational and financial risks and taking properly informed decisions so that they can deliver their objectives and safeguard public money.

As auditors, we are required to consider whether the Council has established proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We performed risk assessment procedures at the audit planning stage to identify any potential areas of significant weakness which could result in value for money not being achieved. This included considering the findings from other regulators and internal auditors, reviewing records at the Council and performing procedures to gain an understanding of the high-level arrangements in place. The resulting risk areas we identified were set out in our audit plan.

For each identified risk area, we performed further procedures during our audit to consider whether there were significant weaknesses in the processes in place at the Council to achieve value for money.

The NAO Code of Audit Practice requires us to structure our commentary on VFM arrangements under three reporting criteria: financial sustainability, governance and improving economy, efficiency and effectiveness.

We have set out on the following pages our commentary and findings on the arrangements at the Council in each area.

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

- *Meeting with management and regular meetings with senior officers*
- *Interviews as appropriate with other executive officers and management*
- *Review of Council and committee reports and attendance at audit committee meetings*
- *Reviewing reports from third parties*
- *Considering the findings from our audit work on the financial statements*
- *Review of the Council's Annual Governance Statement and Narrative Report and other publications*
- *Considering the work of internal audit and the counter fraud function*
- *Consideration of other sources of external evidence.*

Value for money

Overview

Three Rivers District Council (the Council) is a district council in Southwest Hertfordshire. It works with nine other district and borough councils, local parish and town councils and Hertfordshire County Council (which includes Hertfordshire Fire and Rescue Service) in a three-tier local government system. The administrative area also includes the Hertfordshire Police and Crime Commissioner and Hertfordshire Constabulary. The Council serves a population of circa 90,000 people. The Council has entered into a number of large capital and investment schemes to promote regeneration and generate income. Some of these investment schemes carry significant financial risk. The Council faces, over the medium term, growing financial challenge and increasing uncertainty over its longer-term income predictions, including in respect of its investment in the Wimbledon 'income strip' investment.

Like all councils and the wider local government sector, Three Rivers continues to face significant challenges. The sector faces high levels of uncertainty over future levels of government funding and, for a number of years, has had to plan on the basis of single-year settlements. This makes it harder to produce comprehensive multi-year plans as part of medium-term financial planning. The government has signalled an intention to return to multi-year settlements in the future and announced a national overhaul of local government, reorganizing multi-tier council areas into a series of unitary authorities with devolved powers at a regional, mayoral level. The changes proposed would impact Three Rivers which, like all districts, would be absorbed into a larger unitary council from 1 April 2028 according to the current planned timescales. Work is currently ongoing to present options for reorganization in response to government requirements.

High inflation over recent years has increased cost pressures on all councils' revenue and capital expenditure, indicating reduced certainty about what the future may hold, economically. High interest rates have provided the Council with fortuitously higher than expected interest income on cash balances, but the combination of higher inflation and higher interest rates impacts local communities, including the community the Council serves in Three Rivers. This can lead to increases in demand for council services and impact on council income in areas such as car parking and collection rates for council tax, business rates and rents.

The Local Government Association continues to estimate that the costs to councils of delivering their services will exceed core funding in the future. Nationally, there has been an increase in the number of councils issuing s114 notices or indicating one may be likely.

Three Rivers has arrangements in place to mitigate the macro-risks posed by the national context and, at present, a reasonable level of general fund reserves. However, these could be significantly depleted over the next few years if macro-economic conditions are unfavourable and the uncertainty inherent in the Council's cost and income assumptions do not crystallise in the Council's favour.

Value for money

Local government reorganisation

On 5 February 2025 the Minister for State for Local Government and English Devolution asked all councils in two-tier areas to develop unitary proposals, which will bring together upper and lower tier local government services in new unitary councils. Hertfordshire is in the third wave of reorganisation. Final detailed proposals are to be submitted in November 2025, with the potential establishment of a shadow Council in May 2027 and the transition to the unitary authority in April 2028, marking the cessation of the existing councils in Hertfordshire.

This means the next few years will be ones of significant change and uncertainty. Councils will need to consider the risk of the loss of key individuals and corporate memory in the lead-up to and transition into the new unitary authority. There may be an incentive for more short-term decision making in respect of the use of reserves and concerns, where reserves have been built up over previous years, either via strong management or for the implementation of a particular redevelopment scheme, that these reserves may end up being repurposed to cover an overspend incurred by a successor body. Whilst Authorities retain powers to make some spending decisions in advance of the reorganisation, it is important to make sure that proper governance arrangements remain in place, and that due consideration is given to any schemes which are likely to run beyond the date of transition to the new body.

Transition and reorganisation on this scale will require significant management time to ensure the benefits are identified and plans are in place to realise them post-transition. It may also require experience and skill-sets outside of the 'business as usual' skills and experience in place at the Council. It will be important for the Council to assess the skills it has in place, identify any gaps and take steps to mitigate those gaps to reduce risks arising during or post transition. Plans and arrangements for reorganisation will utilise increasing capacity of senior officers and this may divert attention from the realisation of savings plans or make the achievement of previously planned savings less likely. Such risks will need to be incorporated into updated medium term financial plans.

Members, and in particular audit committee members, will need to be satisfied that where earmarked reserves are being utilised, they are being utilised for their intended purpose and that reserve balances remain at an appropriate and prudent level, as well as be satisfied that balanced budgets continue to be set up to and including the Council's final period of account, in line with the statutory duties placed on key staff. Effective governance and stewardship will remain key, particularly in the operation of the audit committee, delivery of internal audit and execution of the risk management process.

For Three Rivers, this reorganisation into unitary authorities could streamline service delivery, reduce duplication and improve long-term financial sustainability. Government believes there are substantial financial benefits and savings to be made, although these would depend on the exact configuration arrived at. However, any reorganisation of this scale brings significant risk and uncertainty. The Council recognises that transformation costs and service continuity risks must be managed effectively. The transition will require careful planning, particularly around the disaggregation of legacy financial systems, reserves, and service responsibilities. The complexity of the reconfiguration is compounded with several significant income strip schemes across Hertfordshire, including one at Three Rivers, and a substantial volume of large and significant ongoing capital investment and regeneration capital schemes.

Value for money: financial sustainability

This relates to how the Council plans and manages its resources to ensure it can continue to deliver its services.

We considered the following areas:

- *how the Council identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into the plans;*
- *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 workforce, capital, investment, and other operational plans, 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, such as unplanned changes in demand and assumptions underlying its plans.*

General fund

At 31 March 2025 the Council's general fund stood at £4.4m, a slight increase from the general fund balance at 31 March 2024 of £4.3m. However, the level of earmarked reserves increased during the year from £20.5m to £23.2m, meaning the overall level of useable general fund reserves available to the Council now stands at £27.6m, compared to £24.8m a year ago. This is a reasonable level of reserves; the Council's net expenditure on services in 2024/25 was £24.6m and this level of reserves provides a buffer for unexpected short-term shocks.

However, whilst earmarked reserves can be utilised if Members decide to change their use, they are earmarked for specific purposes in anticipation of specific costs. The general fund balance of £4.5m as at 31 March 2025, whilst currently healthy and significantly higher than the Council's minimum level of £2m, is the true reserve for 'unanticipated' cost pressures. The earmarked reserves also include an Economic Impact Reserve ('EIR'), to manage risk. This was £1.4m at the end of March 2025 and is available to manage future economic downturn or loss of business rates. It is assumed that £0.4 million will be utilised from the EIR over the MTFP (2025/26 – 2027/28) to manage the reduction in income from the leisure management contract following the legacy impact of COVID-19 on activity levels.

Medium term financial strategy

Three Rivers District Council manages its budget in conjunction with the Medium-Term Financial Plan (MTFP), which was approved on 25 February 2025 at Full Council. The MTFP is the Council's key financial planning document for the General Fund. It sets out the Council's strategic approach to the management of the General Fund and contains key assumptions over council tax levels, income, cost and inflation pressures, payroll uplifts, capital funding and treasury management.

This strategy underpins the Council's key priorities for Three Rivers and supports the delivery of these priorities and achievement of strategic outcomes within an affordable financial envelope. The MTFP sets out principles which generate financial security targets and identifies financial pressures and any additional resources for priorities to ensure the Council has a financially sustainable plan.

Value for money: financial sustainability

The MTFP is reviewed annually and serves as a guide for the council's financial planning over a multi-year period. The MTFP includes forecasts for the General Fund, which covers the day-to-day expenses of the council. This involves adjusting for various pressures and savings, such as changes in government funding, inflation, and service demands. Alongside the MTFP, the Council also reviews its Capital Strategy and Treasury management policy, which outlines plans for long-term investments in infrastructure and other capital projects.

The MTFP identifies potential savings and efficiencies to support financial sustainability. This includes reviewing service delivery models and exploring new income generation opportunities. The strategy also considers borrowing costs, and investment returns so that the Council can fund its projects while maintaining financial stability. The Council engages with the public and stakeholders to gather input on budget priorities and enhance transparency in the financial planning process.

The Council's Financial plan is completed as part of wider engagement with the Senior Leadership Team (SLT). The first stage of the annual budget setting process is a review of pressures that might impact the council such as new legislation or Council priorities.

The Council approved as part of its budget an additional £500k funding for the Three rivers Climate Emergency and Sustainability Strategy to support the Council in meeting its climate change priorities of Three Rivers Net Zero by 2045. The Council approves the budget in February of every year.

Informing the budget are Capital Strategy reports (reported quarterly) and service plans. These are constructed with input from the Senior Leadership Team and identify budget requirements. There is a quarterly monitoring process reported to Clearance Boards and the Executive. All heads of service are required to complete a 3-year savings, growth and capital needs form that feeds into a Star Chamber process, reviewed by the Council's Directors and reported to SLT for sign off.

The Revenue and Capital investment plans are approved as part of the budget setting process. The Council also has shared partnerships which require joint approval of spending requirements for Audit, Anti Fraud, Building Control, Revenue and Benefits and ICT.

The Council maintains a risk register to which each service is required to contribute both in terms of identifying risks and monitoring them on a quarterly basis for reporting to Members. The SLT approves any changes and reviews the effectiveness of the Risk Management guide following recommendations from the Corporate Risk Group. The Audit Committee receives a report on these and comments or advises as appropriate.

The Council's assumptions in its financial strategy remain broadly reasonable and supported by well-considered rationale, though some risk is unavoidable. The MTFP assumes a 2% pay award for 2025/26 and future years, alongside adjustments for real living wage and National Insurance changes. Non-contract budgets are held at cash, and fees and charges have generally been uplifted by 2.5%. Unavoidable growth linked to statutory or contractual obligations has been incorporated into base budgets.

While the plan does not specify a general inflation percentage for non-pay elements, inflationary pressures are acknowledged as a key risk. Inflation currently stands at 3.8% as of September 2025 and may remain elevated for longer than anticipated. This creates a risk that pay, and other costs could exceed assumptions, particularly if cost-of-living pressures persist above the Bank of England target. Higher inflation would increase pressure on pay budgets and could offset anticipated reductions in pay inflation from 2025/26 onwards. Overall, the Council's approach appears prudent, but the absence of a defined inflation assumption introduces uncertainty in long-term financial sustainability.

Value for money: financial sustainability

Like all councils, Three Rivers faces ongoing and increasing financial pressures. The general fund has been used to support the in-year budgets in recent years. This is not a sustainable strategy, although the amount needed has been reducing year on year and the general fund balance has remained above the minimum level of £2m set by the Director of Finance.

The Council's forecasts for business rate retention and growth are informed by annual projections and expert advice from Local Government Futures and Analyse Local, particularly regarding appeals. In preparing the 2025/26 budget and MTFP the Council expects a reduction in revenue due to the anticipated impact of Fair Funding. To manage this transition, it has strengthened the collection fund reserve. However, initial modelling suggests that the financial impact of Fair Funding may be less significant than originally projected. The Collection Fund Reserve and HB Equalisation Reserve is forecast to be £7.8m by 31 March 2026.

The MTFP assumes the savings targets will be achieved in full to avoid further reliance being placed on in-year use of general fund reserves over the period to 2027/28. The Council recognises there is an inflationary impact on utility costs and interest rates impacting the borrowing costs. The Council does not have additional borrowing needs for 2025/26, and the higher interest rates produce favourable returns for the Council through the investment of cash balances.

Notwithstanding the challenging financial pressures over the MTFP period, the Council's arrangements for identifying its financial and economic risks and understanding its position are strong. The MTFP is well-thought-through and management is responsive to in-year changes to income and cost and their impact both in the current year and future MTFP plans. The Council's financial management in-year has enabled it to reduce its draw on General Fund reserves compared to previous years. Risks associated with the assumptions in the MTFP are well-understood and well-articulated and the MTFP is a detailed, granular strategy with an in-depth level of consideration across all areas of funding, costs and risks.

Budget performance

The original budget for 2025/26 was approved by Full Council on 27 February 2025, with a revised budget subsequently approved via urgent decision in July 2025. While the adjustment to the revenue budget was relatively minor (£0.4 million), the capital programme saw a significant increase of £9.3 million. This increase is attributed to rephased expenditure from 2024/25, following slippage in the delivery of capital projects.

Similarly, £7.5 million was also rephased from 2023/24 into the 2024/25 budget. This recurring pattern of rephasing across financial years suggests potential weaknesses in the Council's capital planning and delivery arrangements. The reprofiling of large project spend into 2025/26 highlights the need for a thorough review of the underlying causes of slippage. The Council should ensure it has a clear understanding of the reasons behind these delays, specifically understanding whether they stem from deficiencies in capital planning, project management, or implementation processes. Strengthening these areas will be critical to improving delivery confidence and ensuring that capital investment achieves its intended outcomes within planned timeframes.

Budget	Original budget (£m)	Revised budget (£m)	Forecast outturn (£m)	Variance (£m)	Comments
Revenue	14.677	15.108	15.105	(0.003)	Minor favourable variance
Capital	5.522	14.829	14.829	0.000	Latest budget was adjusted to include £9.3m rephased from 2024/25.

Value for money: financial sustainability

The Minimum Revenue Provision

The Council is required each year to set a Minimum Revenue Provision (MRP). The MRP refers to the amount charged to the revenue budget for the repayment of debt, based on the underlying need to borrow rather than the actual debt held. This underlying debt is necessary to finance the capital programme. Capital expenditure generally relates to assets with a life expectancy of more than one year, such as buildings, vehicles, and equipment. It is therefore prudent to charge an amount for the repayment of debt over the life of the asset, or a similar proxy, allowing borrowing to be matched to asset life. Setting aside funds for debt repayment in this way enables future borrowing to finance asset replacement without incurring additional cost. The method of spreading these costs is through an annual Minimum Revenue Provision, and it is therefore important that the MRP is sufficiently prudent to mitigate long-term financial sustainability risks. A prudent MRP policy ensures that the Council sets aside adequate resources to repay borrowing over time, thereby reducing future financial pressure.

Following consultation, MHCLG have clarified and updated the regulations and the statutory guidance for minimum revenue provision. Although these take full effect from April 2025, the consultation highlighted that the intention was not to change policy but to clearly set out in legislation the practices that authorities should already be following. This guidance clarifies that capital receipts may not be used in place of a prudent MRP, that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted from the calculation unless exempted by statute.

The Council has a statutory duty under the Local Government Act 2003 to ensure its MRP is prudent. Indicators of prudence can be assessed by comparing the MRP to the Council's Capital Financing Requirement (CFR) and total borrowings and comparing the total borrowings to the CFR. An MRP level below 2% of the CFR and 3% of total borrowings may indicate increased financial risk. Where total borrowings exceed the CFR, this also indicates reduced financial headroom.

In the previous year, the MRP was 1.13% of the opening CFR, indicating scope for a more prudent charge. In line with the guidance issued by the Secretary of State on Minimum Revenue Provision (MRP) on 10 April 2024, Three Rivers District Council does not apply MRP on loans to companies for housing provision, provided the loans will be repaid in full.

The Council's opening 2024/25 Capital Financing Requirement (CFR) of £71.6m includes a carrying value of £42.7m for Wimbledon investment property; MRP for Wimbledon is based on the lease principal repayment. Adjusting the opening CFR by removing the carrying value for Wimbledon (£42.7m) and housing loans (£7.5m) gives £21.4m. Therefore, the 2024/25 MRP of £0.481m represents 2.25% of the adjusted opening CFR, which is above the benchmark level of 2%.

For 2024/25, the MRP as a percentage of total borrowings is approximately 5.5% (against a minimum benchmark of 3%), which exceeds the 3% benchmark and reflects a more balanced approach. In addition, the Council's total debt as a percentage of the capital financing requirement is 20% (against a maximum benchmark of 100%). Borrowings have steadily decreased over the past five years, and the Council is not heavily reliant on debt to fund capital investment. This trend, combined with a proportionate MRP, suggests that debt repayment is well-managed and supports future investment capacity. However, once the impact of the income strip 'borrowing' – the long-term financial liability – is taken into account, MRP as a percentage of borrowing reduces to 1.3% and total borrowing increases to 82.5% of opening CFR.

Value for money: financial sustainability

We have used the following figures in assessing the prudence of the MRP for 2024/25, taken from the 2024/25 draft financial statements.

- Opening CFR £71.6m (adjusted CFR £21.4m)
- General Fund borrowing £14.3m
- MRP 2024/25 £0.781m
- Total general fund and earmarked reserves £27.6m
- Net cost of services 24/25 £5.6m
- Gross service revenue expenditure 24/25 £68m
- Long term borrowing including income strip £59.4m
- Long term assets £171.9m

Overall, MRP is considered prudent as a percentage of total borrowing ad opening CFR. The Council's total general fund debt is only 31% of the general fund CFR, which indicates sufficient 'headroom' for financial resilience purposes.

	Council's ratios	Expectation	Evaluation
MRP as % of total borrowing	5.5%	< 3% then this may indicate a higher risk of MRP being insufficient to secure longer term financial resilience	●
MRP as % of Capital Financing Requirement (CFR)	2.25%	< 2% then this may indicate a higher risk of MRP being insufficient to secure longer term financial resilience.	●
Debt as a proportion of CFR	20%	>50% then this may indicate a higher risk of the Council being over-indebted	●
Total general fund and earmarked reserves as a proportion of net cost of services	493%	the lower the proportion, the greater the risk to financial resilience	●
General fund and earmarked reserves as a percentage of gross service revenue expenditure	41%	the lower the percentage, the greater the risk to financial resilience	●
Long term borrowing as a proportion of long term assets	8.3%	the higher the proportion, the greater the risk the council is over indebted	●

Value for money: financial sustainability

The Wimbledon ‘income strip’

Three Rivers District Council entered into an income strip agreement for 27-39A Hartfield Road, Wimbledon in December 2022. The council acquired a 50-year leasehold interest in the asset, with option to purchase the freehold for £10 at the end of the term.

An income strip agreement typically involves a long-term lease arrangement, under which the council commits to making lease payments while benefiting from the redevelopment and regeneration of the asset and increased rental income it is hoped this will generate. In essence:

- The Council enters into a long-term finance lease with the investor and is required to make annual, index-linked lease payments for, in this case, 50 years
- The investor provides access to its preferred developer, who regenerates the asset and the numerous constituent units
- The units are leased out and rental income from these units is retained by the Council
- At the end of the 50-year lease, the assets are handed to the Council.

The terms of the proposed 50-year lease include a starting annual rental payment of £1.45 million that is payable to the investor. This is subject to annual Retail Price Index (RPI) indexation with a floor (minimum increase) of 1% and cap (maximum increase) of 4%.

The Council's financial arrangement was structured to ensure a sustainable long-term revenue stream. Under this arrangement, the Council receives an annual income of £200,000, allocated to the revenue account to support service delivery, while an additional £300,000 per annum is directed into a sinking fund to mitigate financial risks for the first five years of the lease agreement. This fund serves as the primary source for covering any expenditure not met by income, with the reserve fund projected to reach £4.9 million by the end of the 50-year term. The council is entitled to the full £1.9 million annual passing rent from occupational tenants, with the rental income received index-linked to RPI, subject to a 1-4% cap and collar, compounded every five years.

The Council assumes responsibility for the risk associated with rental income and the planned and preventative maintenance of the building structure and roof, although these costs are recoverable from occupational tenants through a service charge. The asset contains long terms tenants, including an established hotel chain. The risk to the Council of the cost of inflation linked payments to the investor is, to an extent, mitigated by the fact that the Council’s own tenants are subject to a similar inflation linked tenancy, meaning the income received rises in line with the payments the Council is expected to make to the investor. Whilst the overall economic risk sits with the Council – for example, were the hotel to fall not administration, the Council would still be required to pay the investor’s annual lease costs – this is to an extent mitigated by the terms of the tenancy agreement in place governing increases in rental income.

Value for money: financial sustainability

Calculations viewed suggest that rental income to the council exceeds lease costs paid to the investor. However, receipts do not exceed the £500k surplus annually and therefore the council has had to claim the income guaranteed by the developer for the first five years of the lease.

As part of the agreement, the investor made a payment to the Council of £3.5m as a contribution towards a sinking fund for the building to mitigate against risks associated with non-payment of rent by tenants and any required refurbishment, although should this not be required the Council is free to use the monies for any purpose. As at 31 March 2025 the council holds an earmarked reserve of £9.3m. This has increased from £8.8m at 31 March 2024.

A decision was taken by the Council as a result of the Covid-19 pandemic to increase the commercial risk reserve. It is our view that the Council is appropriately managing risks regarding the income strip such as future maintenance costs, unforeseen vacancies, tenant defaults and market challenges relating to tenant occupancy which could create revenue gaps, by increasing the commercial risk reserve. However, with the structure of the income strip agreement there is always a risk that earmarked reserve monies are used to fund revenue gaps rather than enhance or maintain the asset which would reduce the reserve over time and potentially create future funding gaps in the longer term.

Under this scheme, all of the economic risk sits with the Council. There is therefore a long-term financial sustainability risk should economic conditions result in an impairment of the asset value and reductions in rental income, whilst at the same time the value of the lease payments owed by the Council will continue to increase by up to 4% each year.

Based on the current level of reserves, we have not identified this as a significant risk to the council at this current time. However, it is important that the Council continues to monitor this position closely to ensure it is able to meet lease payments that could be inflated by up to 4% annually in the backdrop of a challenging economic market, without this burden falling on the taxpayer for the remaining 47 years.

Value for money: financial sustainability

Summary

We have not, at present, identified any significant weaknesses in the arrangements in place to support financial sustainability. However, as reported in the prior year, there are residual financial risks present which, if not managed effectively over the short term, could introduce significant weakness in future years. This is due primarily to the fact that continuing success of the scheme rests on favourable economic conditions over the remaining 47 years.

The Council has effective arrangements in place to plan and manage its resources to ensure it can continue to deliver its services. It has a good understanding of its financial position and the risks inherent in the forward-looking MTFP. It has a capable, experienced and informed management team who demonstrate a good understanding of the current position and future financial challenge. Arrangements in respect of financial planning, budget setting and control are in place and operating effectively. The Council monitors its Medium-Term Financial Plan (MTFP) through regular updates and reviews, quarterly monitoring reports, executive oversight and public and stakeholder consultation. The MTFP is reviewed annually to ensure alignment with financial goals and economic changes. Quarterly reports update on financial performance, highlighting variances and proposing corrective actions. The Executive Committee regularly reviews the MTFP to ensure targets are met and adjustments are made as needed.

With local government reorganisation planned to take place in just over two years, but with little certainty over what the future reorganisation will look like, there is a growing uncertainty over the long-term plans. This makes it harder for the Council to consider the longer-term financial position. In the short term, members will need to ensure that their current decisions take into account, as far as possible, the needs of the future unitary body into which Three Rivers will be absorbed and ensure that, on transition, the Council's financial resilience is as strong as possible to ensure the emerging organisation commences its life on a robust financial footing.

There are indicators of financial strain: MRP is low compared to the Council's CFR, the long-term success of the income strip relies on favourable macro-economic conditions over the next half-century over which the Council has no control and the continuing pressures on local authority funding are unlikely to improve over the short term. Unfavourable macro economic conditions could result in an impairment of the income strip asset value and reductions in rental income, whilst the cost of the lease continues to increase by up to 4% each year, regardless.

Management is, however, alert to the risks present and is actively considering options to mitigate. The arrangements in place enable management to be aware of and respond to the risks, notwithstanding the significant financial challenge presented and, as such, in considering management capability and the efficacy of the arrangements, we have not, at present, identified any significant weaknesses in the arrangements in place to support financial sustainability.

Value for money: financial sustainability

Recommendations

We have rolled forward a number of recommendations in respect of financial sustainability:

1. The Council should consider whether the Wimbledon income strip scheme contains an embedded derivative – and, if so, whether the derivative is closely associated – and account for this within the financial statements accordingly.
2. The Council should ensure the Effective Interest Rate (EIR), and thus the net present value (NPV) of the liability for the scheme, remains appropriate given the scheme's performance, and ensure this is reflected in the financial statements accordingly.

We have raised the following new recommendations in respect of financial sustainability:

1. The capital budget was underspent in the financial year by £9.3m, mirroring a similar underspend of £7.5m in the prior year. This slippage indicates potential weaknesses in the capital planning arrangements. The Council should ensure it understands the reason for this slippage in the capital programme, including understanding whether the slippage is due to poor capital planning or poor implementation arrangements, and implement actions to strengthen the capital programme, budget forecasting and implementation.
2. With local government reorganisation planned to take place in just over two years, Members should ensure their plans are in the best interests of the new council(s) and the residents of the reorganised area, and do not undermine or diminish the benefits or savings anticipated as a result of unitarization. Members will need to ensure that their current decisions take into account, as far as possible, the needs of the future unitary body and ensure that, on transition, the Council's financial resilience is as strong as possible to ensure the emerging organisation commences its life on a robust financial footing.
3. Members should consider whether there are further actions that could strengthen the position to ensure the new unitary body commences its life in as strong a position as possible to support the residents and businesses of the unitary area.
4. Members, and in particular audit committee members, will need to be satisfied that where earmarked reserves are being utilised, they are being utilised for their intended purpose and that reserve balances remain at an appropriate and prudent level, as well as be satisfied that balanced budgets continue to be set up to and including the Council's final period of account, in line with the statutory duties placed on key staff

Value for money: governance

This relates to the arrangements in place for overseeing the Council's performance, identifying risks to achievement of its objectives and taking key decisions.

We considered the following areas:

- *how the Council monitors and assesses risk and 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. This includes arrangements for effective challenge from those charged with governance/audit committee; and*
- *how the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests) and for example where it procures or commissions services.*

Risk management and governance

The Council has appropriate arrangements in place to assess risk and gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

The Council considers fraud and counters risk across a broad range of areas. The Council has an approved Risk Management Policy and a Risk Management Guide. Strategic risks are linked to the Council's priorities. The Strategic Risk Register is reviewed and monitored on a quarterly basis. Operational risks are also developed and monitored as part of the service risk registers maintained at the service lead level.

Regular meetings are held between budget mangers and finance business partners. Budget monitoring is reported through the Corporate Management Team (CMT) and CMT takes joint ownership of the budget delivery. The managers manage the budgets and there is collective ownership of budgets by CMT. The senior leadership lead on the wider corporate governance agenda, of which risk management is a part, and ensure that all risks are fully considered in all strategic decision making, while the CMT ensure that the Council manages risk effectively in each service within the agreed corporate strategy.

The audit committee considers and reviews the risk management strategy and conducts annual assessments of the operational risk registers.

The Council's risk strategy includes the roles and responsibilities of all those involved in the risk management process.

Informed decision making

The Council promotes informed decision-making by creating committees with distinct responsibilities. These committees hold regular meetings to address significant matters as per their terms of reference. Details of these meetings, including agendas, are published on the Council's website to foster transparency and facilitate stakeholder engagement.

Value for money: governance

Reports are distributed well in advance of meetings to enable members to contribute effectively and raise challenges. The governance process implemented by the Council undergoes independent review by the Audit Committee. At the start of each committee meeting, members and officers are required to declare their interests.

Budgetary control

The Council produces quarterly budget monitoring reports which are available on the Council website. These reports include a review of the general fund balance, financial position, the capital program, and performance against local indicators related to strategic risks, freedom of information, and environment information requests. These reports are subject to review by relevant committees of the Council.

The Council undertakes an incremental approach to budgeting. In relation to capital, the agreed programme is reprofiled during the year to reflect projected delivery. The affordability of future schemes is kept under review to ensure that borrowing requirements arising from the capital expenditure are affordable within the agreed budget. This includes a review of annual capital programmes.

The forecast income and expenditure from treasury management activities is included in the budget and reported on in the financial monitoring report. The Council's treasury management strategy sets out the council's investment and borrowing strategy and appetite for risk in relation to these activities. Scenario planning is undertaken as part of the financial planning process. A contingency for pay inflation is set aside each year to manage the impact of the pay award.

Shared arrangements

The ability to identify and assimilate new technologies is an integral part of the Council's approach to achieving its strategic objectives. The Council has a Shared ICT service with Three Rivers District Council. The shared ICT service is responsible for developing the shared ICT platform as well as delivering ICT services.

A joint ICT Management Board and an IT Steering Group meets frequently to consider the strategic direction of the service. The ICT service is committed to embracing new digital opportunities to better meet the needs of residents, achieve savings and transform services. A secure, resilient, effective, and forward-looking Technology Service is critical in delivering these aims. Access to all IT systems is strictly defined according to role. Password access is controlled according to best practice. Specific Council policies exist (whistleblowing, anti-money laundering for example) and training offered to Officers and Members in these areas to encourage early detection and investigation of any suspicious activity.

The Council operates shared services for HR and Revenue and Benefits with Three Rivers District Council Parking Services are provided by Hertsmere. There is a Shared Service Operations Board and Partnership Board in place to oversee the shared service arrangements with Three Rivers District Council. The Council has a housing joint venture with Watford Community Housing. In addition, there are other smaller partnerships with community-based organisations.

Value for money: governance

Internal audit

The Council's internal audit provision is delivered by the Shared Internal Audit Service (SIAS) hosted by Hertfordshire County Council. The service complies with CIPFA's Statement on the role of the Head of Internal Audit and operates to Public Sector Internal Audit Standards. The Head of Assurance confirms to Audit Committee the 'Fitness for Purpose' of internal audit to conduct the work that informs the assurance opinion each year. For each audit, SIAS issues a Final Audit Report, and this is signed off by management together with an agreement to implement the recommendations that have been made.

In compliance with the requirements of Accounts and Regulations 2015, the Council places reliance on the Shared Internal Audit Service (SIAS) which undertakes a programme of work to review the effectiveness of the Council's risk management, control environment and governance processes. An annual audit of operational plan is presented to the Audit Committee for approval. Progress of internal audit against the audit operational plan is considered at Audit Committee meetings.

SIAS reports to the Audit Committee quarterly regarding progress against the Audit Plan and the implementation status of high priority recommendations.

The overall internal audit assurance opinion for 2024/25 is 'Reasonable assurance' on financial systems, meaning there is a sound system of governance, risk management and control, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. The assurance on the non-financial systems is 'Reasonable assurance', meaning there is a sound system of governance, risk management, and control in place. Some issues, non-compliance, or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.

SIAS has concluded that the corporate governance and risk management frameworks comply with the CIPFA / SOLACE best practice guidance on corporate governance. This conclusion is based on the work undertaken by the Council and reported in its Annual Governance Statement for 2024/25 and the specific reviews of Risk Management and Corporate Governance conducted by SIAS during the year.

Standards and behaviour

The Council's Monitoring Officer holds overall responsibility for ensuring the Council operates lawfully and has a statutory duty to report any instances of legal non-compliance. To support this, procedures are in place to ensure legal considerations are embedded in report preparation. All reports submitted to the Corporate Management Board (CMB), Portfolio Holders, Cabinet, and Council include legal implications and, where appropriate, commentary from the Monitoring Officer.

Value for money: governance

In 2023/24, the Council undertook a project to refresh its organisational Values and Behaviours. It maintains a comprehensive suite of HR policies, which are updated as needed. Legal implications are consistently included in all formal reports. Statutory Officers meet regularly—both informally and formally—with internal auditors to discuss governance matters. The Council has established a range of policies to promote integrity and transparency, including:

- Anti-Fraud and Corruption Strategy
- Anti-Bribery Policy
- Gifts and Hospitality Policy, which includes guidance on declaring interests and hospitality
- Whistleblowing Policy, supported by a dedicated email address

Allegations of fraud, such as Council Tax Reduction fraud, Council Tax fraud, Blue Badge misuse, Community Infrastructure Levy fraud, grant fraud, and Business Rates fraud, are referred to the Fraud Team via email or phone. The Council's Local Code of Corporate Governance identifies the Nolan Principles (Standards in Public Life) as the foundation of its governance framework. Expected standards of conduct and behaviour for Members, Officers, partners, and the community are communicated through Codes of Conduct, Protocols, and the Constitution. Mechanisms are in place to ensure all parties understand their responsibilities under these frameworks.

The Council's website provides clear guidance on how to make a complaint about a Member's conduct and outlines the process for handling such allegations. Complaints are managed by the Monitoring Officer. The Corporate Compliments and Complaints Policy specifies that complaints about elected Councillors should be directed to the Solicitor to the Council, who also serves as the Monitoring Officer.

The Council's Constitution also sets out employment procedures for senior officers, including the Head of Paid Service, Strategic and Assistant Directors, Monitoring Officer, and Chief Finance Officer. Management demonstrates a commitment to transparency through detailed reporting in the Medium-Term Financial Plan (MTFP) and budget documents, as well as through the breadth of information shared with Members across various matters.

Value for money: governance

Governance over the Wimbledon 'income strip'

The Shareholder and Commercial Ventures Panel has oversight of the income strip arrangement and its financial viability. Performance updates on the income strip agreement are presented as a standing agenda item at each shareholder and Commercial Ventures Scrutiny Panel meeting. The Council has appointed Lambert Smith Hampton (LSH) to manage the property on a day-to-day basis and we have observed evidence that regular monitoring of the arrangement is undertaken between LSH, the Head of Property and Finance.

Performance of the income strip arrangement also forms part of the quarterly monitoring to the Policy and Resources Committee. The monitoring report also includes the balance on the commercial risk reserve which is ringfenced to mitigate risks associated with the project. We are satisfied that there were appropriate governance and scrutiny arrangements in place during the 2024/25 financial year in relation to this arrangement.

Preparation of statutory financial statements

The Council issued their 2024/25 draft financial statements by the statutory reporting date of 30 June 2025. However, the Council subsequently amended and revised these statements and re-issued them on 30 September 2025. In updating their accounts, management has made changes, in the comparators, to figures in the prior year audited accounts. This includes changes in the level of MRP charged and in the closing general fund balance. These changes are not material and thus should not have been amended in the prior year comparators. Moreover, changes should not be made retrospectively to MRP as this is a breach of legal and regulatory requirements. The Council should ensure the accounts it produces on 30 June each year are its final draft statements and, importantly, should ensure it does not amend figures in the prior year accounts comparators unless a material error has been identified in line with International Accounting Standard 1 (IAS1).

Local government reorganisation

The next few years will be ones of significant change and uncertainty. Councils will need to consider the risk of the loss of key individuals and corporate memory in the lead-up to and transition into the new unitary authority. There may be an incentive for more short-term decision making in respect of the use of reserves and concerns, where reserves have been built up over previous years, either via strong management or for the implementation of a particular development scheme, that these reserves may end up being repurposed to cover an overspend incurred by a successor body. Whilst Authorities retain powers to make some spending decisions in advance of the reorganisation, it is important to make sure that proper governance arrangements remain in place, and that due consideration is given to any schemes which are likely to run beyond the date of transition to the new body.

Value for money: governance

Transition and reorganisation on this scale will require significant management time to ensure the benefits are identified and plans are in place to realise them post-transition. It may also require experience and skill-sets outside of the 'business as usual' skills and experience in place at the Council. It will be important for the Council to assess the skills it has in place, identify any gaps and take steps to mitigate those gaps to reduce risks arising during or post transition. Plans and arrangements for reorganisation will utilise increasing capacity of senior officers and this may divert attention from the realisation of savings plans or make the achievement of previously planned savings less likely. Such risks will need to be incorporated into updated medium term financial plans.

Summary

We have not identified any significant weaknesses in the Council's arrangements. The Council has effective arrangements in place for overseeing the Council's performance, identifying risks to achievement of its objectives and taking key decisions.

We have raised one new recommendation in respect of the preparation of financial statements and one in respect of the forthcoming local government reorganisation.

Value for money: improving economy, efficiency and effectiveness

This relates to how the Council seeks to improve its systems so that it can deliver more for the resources that are available to it.

We considered the following areas:

- *how financial and performance information has been used to assess performance and identify areas for improvement;*
- *how the Council evaluates service quality 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, 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.*

Use of information

The Council utilises financial and performance information to assess its performance. It ensures that services and priorities approved by the Members are delivered by reporting quarterly using key measures and programme updates to track progress.

The Corporate Framework for 2023 - 2026 sets out our key priorities to achieve our vision. Key Performance Indicators for each of the council's service areas are aligned to a corporate framework objective which are monitored quarterly and/or annually. The following are the key objectives for Three Rivers:

- Provide responsive and responsible local leadership,
- Expand our position as a great place to do business, Support
- Enable sustainable communities
- and achieve net carbon zero and be climate resilient

Partnership working and use of consultants

The Council has improved its Freedom of Information processes working with the Information Commissioner and has been used as a case study for improvement. Local Government Ombudsman reports are taken to Committee.

Consultants are only used for specific tasks where the Council does not have specific skills or there is a high level of risk such as Treasury Management Advice, external legal support on commercial projects. Where possible services are procured with other partners such as with County for biodiversity and heritage advice. The council has a procurement policy in place and when needed, interim vacancies are approved by SLT to fill in areas where there is more targeted resources need.

Value for money: governance

In November 2023, the Council adopted its Procurement Strategy (2023–2026), which outlines five strategic aims:

- Enhance value
- Deliver sustainably
- Drive innovation
- Be commercial
- Ensure compliance

Procurement activities are governed by the UK Public Contracts Regulations and the Council's own Contract Procedure Rules, which form part of the Constitution. These rules define the procedures, timescales, and governance for procurement. Contracts are actively reviewed to improve service delivery and assess opportunities for insourcing.

The Council actively collaborates with various partners, including private investors, to drive major commercial and residential developments. The Council values community input and actively engages with stakeholders.

Listening to residents and working collaboratively ensures the Council's plans align with expectations and needs. The Council prioritises supporting and valuing communities by delivering health, wellbeing, cultural, community safety, and environmental initiatives. This cooperative effort involves a wide range of partners.

The Council oversees the commissioning and procurement of services, ensuring strict adherence to relevant legislation, professional standards and internal policies. There is a Procurement policy in place, delineating the prescribed approach for all procurement activities. This policy has been communicated to all staff involved in the procurement process. All contracts entered into by the Council are required to comply with the rules embedded within the Constitution.

Service and quality monitoring

The Council has a Major Projects Board, and these are also monitored as part of budget monitoring. The Council does not have significant major capital projects.

To assess whether expected benefits are being realised, the Council employs monitoring and evaluation mechanisms. This ensures that outcomes align with expectations and provides a basis for continuous improvement. Members also play a crucial role in scrutinising procurement processes and monitoring their results. These measures collectively contribute to quality outcomes.

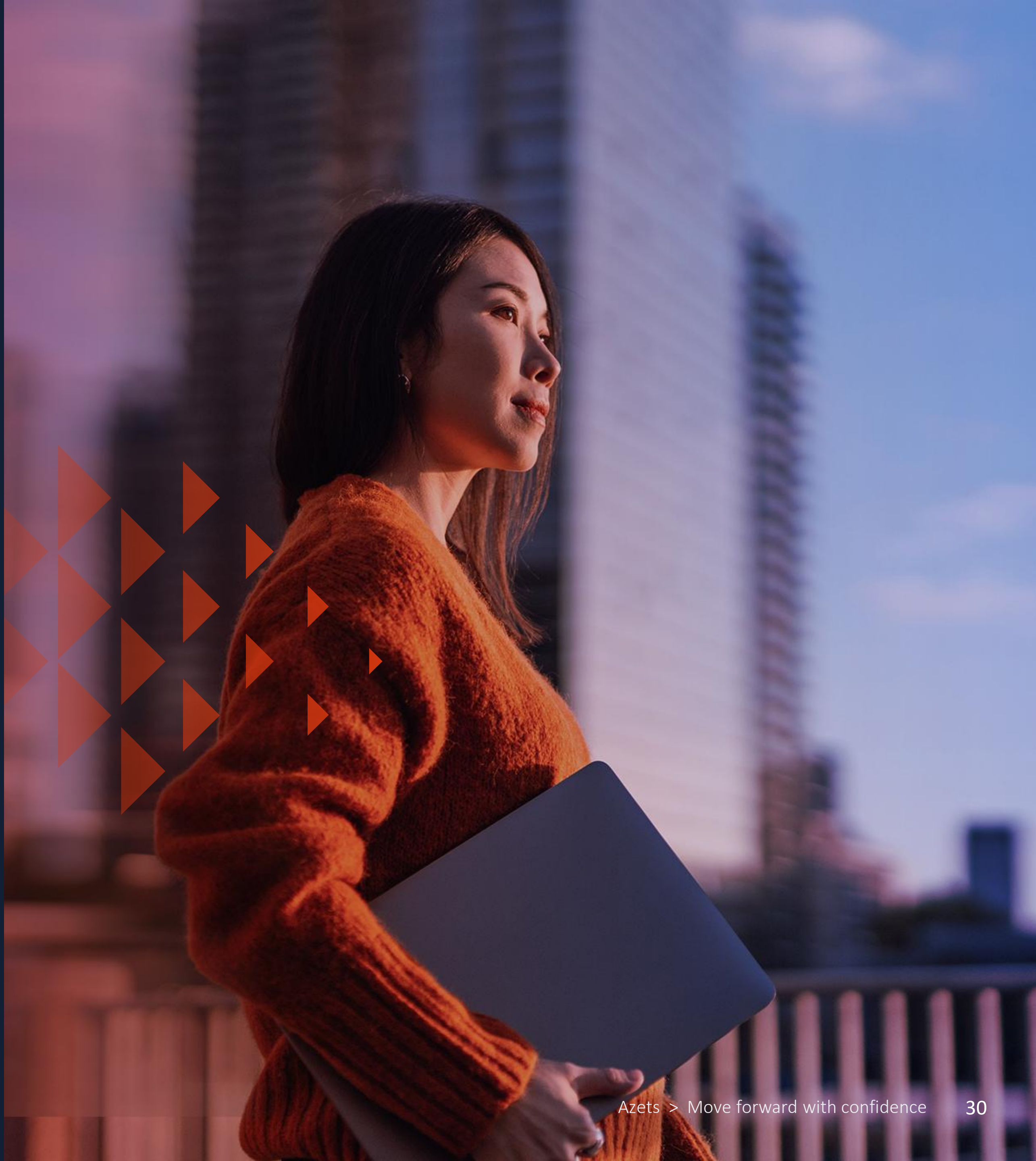
Value for money: improving economy, efficiency and effectiveness

A performance and governance system is used to monitor performance and risk and is providing improved insight into corporate priority delivery. The system provides a range of corporate performance monitoring relating to service delivery, finances, staff, and customers, alongside consideration of the risks associated with the delivery of objectives in order to provide strategic insight and facilitate prompt implementation of any necessary improvement plans.

Summary

We have not identified any significant weaknesses in the Council's arrangements. The Council has effective arrangements in place for using financial and performance information to make informed decisions for improving the way it manages and delivers services and working with partnerships effectively.

Recommendations



Value for money: other recommendations

The recommendations we made in this and the previous year are set out below, together with progress and actions taken by the Authority in 2024/25 to address them. Our detailed commentary is set out in this Auditor's Annual Report. All recommendations were 'other' recommendations. Given the limited amount of time between our previous report and this report, it would be unreasonable to expect all recommendations would have been addressed in the five-month window. Notwithstanding this, management has been proactive in responding to the recommendations and commissioned an external report to support their implementation.

Observation	Criteria	Other recommendation
Capital programme The capital budget was underspent in the financial year by 9.3m, mirroring a similar underspend of £7.5m in the prior year. This slippage indicates potential weaknesses in the capital planning arrangements, resulting in a reprofiling of large project spend carried forward into the 2025/25 financial year.	Financial sustainability	1. The Council should ensure it understands the reason for this slippage in the capital programme, including understanding whether the slippage is due to poor capital planning or poor implementation arrangements, and implement actions to strength capital programme and budget forecasting and implementing

Value for money: other recommendations

Observation	Criteria	Other recommendation
Financial resilience and local government reorganisation With local government reorganisation planned to take place in just over two years, Members should ensure their plans are in the best interests of the new council(s) and the residents of the reorganised area, and do not undermine or diminish the benefits or savings anticipated as a result of unitarization.	Financial sustainability	2. With local government reorganisation planned to take place in just over two years, Members should ensure their plans are in the best interests of the new council(s) and the residents of the reorganised area, and do not undermine or diminish the benefits or savings anticipated as a result of unitarization. Members will need to ensure that their current decisions take into account, as far as possible, the needs of the future unitary body and ensure that, on transition, the Council's financial resilience is as strong as possible to ensure the emerging organisation commences its life on a robust financial footing. 3. Members should consider whether there are further actions that could strengthen the position to ensure the new unitary body commences its life in as strong a position as possible to support the residents and businesses of the unitary area. 4. Members, and in particular audit committee members, will need to be satisfied that where earmarked reserves are being utilised, they are being utilised for their intended purpose and that reserve balances remain at an appropriate and prudent level, as well as be satisfied that balanced budgets continue to be set up to and including the Council's final period of account, in line with the statutory duties placed on key staff

Value for money: other recommendations

Observation	Criteria	Other recommendation
Income strip: embedded derivative An embedded derivative may exist where the Council, under the terms of the scheme, may be able to reduce its overall liability with additional payments. International Financial Reporting Standards require that this is accounted for within the financial statements. As the accounts have been disclaimed for the previous 4 years, auditors have not been able to express a view on the appropriateness of the current accounting treatment in this respect.	Financial sustainability	5. The Council should consider whether the Wimbledon income strip scheme contains an embedded derivative – and, if so, whether the derivative is closely associated – and account for this within the financial statements accordingly.
Income strip: expected interest rate (EIR) The EIR impacts the overall size of the financial liability payable to the investor in terms of the net present value (NPV). As the accounts have been disclaimed for the previous 4 years, auditors have not been able to express a view on the appropriateness of the current accounting treatment in this respect.	Financial sustainability	6. The Council should ensure the Effective Interest Rate (EIR), and thus the net present value (NPV) of the liability for the scheme, remains appropriate given the scheme's performance, and ensure this is reflected in the financial statements accordingly.

Value for money: other recommendations

Observation	Criteria	Other recommendation
Preparation of financial statements The Council issued their 2024/25 draft financial statements by the statutory reporting date of 30 June 2025. However, the Council subsequently amended and revised these statements and re-issued them on 30 September 2025. In updating their accounts, management has made changes, in the comparators, to figures in the prior year audited accounts. This includes changes in the level of MRP charged and in the closing general fund balance. These changes are not material and thus should not have been amended in the prior year comparators. Moreover, changes should not be made retrospectively to MRP as this is a breach of legal and regulatory requirements.	Governance	7. The Council should ensure the accounts it produces on 30 June each year are its final draft statements and, importantly, should ensure it does not amend figures in the prior year accounts comparators unless a material error has been identified in line with International Accounting Standard 1 (IAS1).
Local government reorganisation: capacity and skills The next few years will be ones of significant change and uncertainty. Councils will need to consider the risk of the loss of key individuals and corporate memory in the lead-up to and transition into the new unitary authority. Transition and reorganisation on this scale will require significant management time to ensure the benefits are identified and plans are in place to realise them post-transition. It may also require experience and skill-sets outside of the 'business as usual' skills and experience in place at the Council. It will be important for the Council to assess the skills it has in place, identify any gaps and take steps to mitigate those gaps to reduce risks arising during or post transition. Plans and arrangements for reorganisation will utilise increasing capacity of senior officers and this may divert attention from the realisation of savings plans or make the achievement of previously planned savings less likely. Such risks will need to be incorporated into updated medium term financial plans.	Governance	8. The Council should assess the skills and capacity it has in place to support local government reorganisation, identify any gaps and take steps to mitigate those gaps to reduce risks arising during or post transition.

Value for money: follow up of prior recommendations

Observation previously reported	Criteria	Recommendation previously made	Auditor update 2024/25
Income strip: IFRS16 This new standard may impact on current year costs and recognition, which could impact the in-year reported financial position of the Council.	Financial sustainability	The Council should consider the impact of IFRS16 on the Wimbledon income strip scheme, as this standard comes into force from the 2024/25 year of account for the Council.	The Council has considered the impact of IFRS16 on the income strip in the 2024/25 draft financial statements **Recommendation closed**
Minimum Revenue Provision Indicators of prudence can be seen by comparing the MRP against the capital financing requirement (CFR) and the total borrowings held by the Council. A level of MRP which is lower than 2% of the CFR and 3% of total borrowings indicates increased financial risk in the medium to long term. In 2023/24, the MRP as a percentage of the CFR is 1.13%, while MRP as a percentage of borrowings stands at 5.16%. This suggests a higher risk that the MRP may be insufficient to ensure long-term financial resilience.	Financial sustainability	Management should review the minimum revenue provision (MRP) in future years to ensure the annual MRP adjustment is adequate and prudent, considering the Council's CFR and borrowing levels, and ensure longer term financial risks are contained.	The Council has reviewed and updated their MRP in line with statutory guidance and is currently over the expected 2% of the opening CFR. **Recommendation closed**

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