



# Auditor's Annual Report for Harlow District Council

Year-ended 31 March 2024

—

October 2025

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This report is addressed to Harlow District Council ('the Council'). We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

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

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**01**

# **Executive Summary**

# Executive Summary

## Purpose of the Auditor's Annual Report

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of Harlow District Council (the 'Council'). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Council alongside the annual report and accounts.

## Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:



**Accounts** - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Council 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').



**Narrative report** - We assess whether the narrative report is consistent with our knowledge of the Council.



**Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Council's 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.



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

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

## Findings

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

Accounts	<p>We issued a disclaimed opinion on the Council's accounts on 12 November 2025. The reason we disclaimed our opinion was that we were unable to obtain sufficient assurance that the balances and transactions were true and fairly stated due to a lack of historic assurance over opening balances and information necessary to conclude on the in year transactions not being available.</p> <p>We have provided further details of the key risks we identified and our response on pages 8 and 9.</p>
Narrative report	<p>We did not identify any significant inconsistencies between the content of the narrative report and our knowledge of the Council.</p>
Value for money	<p>We are required to give an opinion as to whether the Council has appropriate arrangements in place to secure economy, efficiency, and effectiveness in the use of resources.</p> <p>Our opinion is that the Council does not have appropriate arrangements in place. We identified three significant weaknesses in respect of arrangements to secure economy, efficiency, and effectiveness in the use of resources. Further details are set out on page 11.</p>
Other powers	<p>See overleaf.</p>

# Executive Summary



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

## Public interest reports

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

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

**We have not issued a Public Interest Report this year.**

## Judicial review/Declaration by the courts

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

**We have not applied to the courts this year.**

## Recommendations

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

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

**We made no recommendations under Schedule 7 of the Local Audit and Accountability Act.**

**We have not raised any other recommendations.**

## Advisory notice

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

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

**We have not issued an advisory notice this year.**

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

02

# Audit of the financial statements

# Audit of the financial statements



## KPMG provides an independent opinion on whether the Council's financial statements:

- Give a true and fair view of the financial position of the the Group and Council as at 31 March 2024 and of the Group's and the Council's income and expenditure for the year then ended; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

We conduct our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We also fulfil our ethical responsibilities under, and ensure we are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We are required to ensure that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Our audit opinion on the financial statements

We have issued a disclaimed opinion on the Group financial statements on 12 November 2025.

The full audit report is included in the Council's Annual Report and Accounts for 2023/24 which can be obtained from the Council's website.

Further information on our audit of the financial statements is set out overleaf.

# Audit of the financial statements



The table below summarises the key financial statement audit risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Significant financial statement audit risk	Procedures undertaken	Findings
<b>Recognition of pension surplus</b>  The Council is a member of the Local Government Pension Scheme. The Scheme is reporting a net surplus position. Judgment is required in determining the extent to which a surplus can be recognised based on the extent to which the Council will be able to access the benefit associated with the surplus position.	<ul style="list-style-type: none"><li>• We have assessed the appropriateness of the Council's policy for determining whether to recognise its share of the pension scheme surplus.</li><li>• We have assessed the disclosures made by the Council of the application of the asset ceiling applied to the assets.</li></ul>	We did not identify any material errors in the policy's decision to apply an asset ceiling and not recognise the surplus on the pension scheme as an asset.
<b>Valuation of council dwellings</b>  The Council's portfolio of housing properties is required to be held at fair value. There is a risk that the estimated value of the properties is materially over or under estimated.	We have undertaken risk assessment and planning procedures over this balance only, in line with our disclaimed opinion, as noted on Page 7.	As noted we have not undertaken a substantive response to this risk.
<b>Valuation of other land and buildings</b>  The Council's other properties are required to be held at fair value. There is a risk that the estimated value of the properties is materially over or under estimated.	We have undertaken risk assessment and planning procedures over this balance only, in line with our disclaimed opinion, as noted on Page 7.	As noted we have not undertaken a substantive response to this risk.



# Audit of the financial statements



The table below summarises the key financial statement audit risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Significant financial statement audit risk	Procedures undertaken	Findings
<b>Valuation of post-retirement benefits</b>  The valuation of the Council's pension liability includes significant judgment in selecting assumptions relating to future costs, such as discount rates and mortality assumptions.	<ul style="list-style-type: none"><li>• We assessed the controls in place for management to review and challenge the assumptions used in developing the pension liability.</li><li>• We assessed the expertise of the actuaries utilised by management to value the pension liability.</li><li>• We utilised actuarial specialists to compare the selected assumptions to our own internal benchmarks.</li></ul>	<p>We concluded that the overall valuation of the pension liabilities was a balanced estimate.</p> <p>We did not identify any material errors in the preparation of the pension valuation.</p> <p>We raised a control recommendation relating to the processes in place for management to review the assumptions proposed by the actuaries.</p>
<b>Expenditure recognition</b>  We identified a risk that management may seek to manipulate reported expenditure in order to report that they had achieved their budgeted financial performance.	<p>We have undertaken risk assessment and planning procedures over this balance only, in line with our disclaimed opinion, as noted on Page 7.</p>	<p>As noted we have not undertaken a substantive response to this risk.</p>

**03**

# **Value for Money**

# Value for Money



## Introduction

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or 'value for money'. We consider whether there are sufficient arrangements in place for the Council for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



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



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



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

## Approach

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

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

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

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We make performance improvement observations where we identify opportunities to improve in areas where we have not identified any weaknesses.

## Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
<b>Commentary page reference</b>	13-14	15-16	17
<b>Identified risks of significant weakness?</b>	✗ No	✓ Yes	✗ No
<b>Actual significant weakness identified?</b>	✗ No	✓ Yes	✗ No
<b>2022-23 Findings</b>	No significant weakness identified	No significant weakness identified	No significant weakness identified
<b>Direction of travel</b>	↔	↓	↔

# Value for Money



## National context

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

### Financial performance

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

Some Councils have initiated innovative plans to raise new funds, such as through increasing commercial activity. Examples have included purchasing commercial assets such as shops and offices with a view to generate rental income, others have set up novel joint ventures to deliver regeneration schemes. Some have questioned whether commercialisation activities open Councils to excessive risk or could be a poor use of taxpayer monies.

Some Councils have issued what are known as “section 114” notices, in this instance a declaration that they cannot generate sufficient resources to meet the costs they need to incur. In some instances, this has resulted in a need for exceptional financial support from central government (such as approval to sell council buildings to meet costs) and severe cutbacks to services.

### Housing Revenue Account (HRA)

Councils which operate a HRA are required by law to prevent the account running into deficit, and must operate it independently of the main operations of the Council. HRAs have experienced financial pressure over the past few years on account of high inflation rates increasing the cost of operating housing, whilst central government cap rent increases at or below the rate of inflation.

Following tragic deaths in housing estates in Kensington and Rochdale, there has been increased focus on the safety of social homes. Landlords are required to take remedial action to ensure homes are compliant with fire safety legislation and new regulations to improve building safety more generally. These regulations have increased the costs faced by landlords, caused loss of income where properties were void for repairs, and increased the risk of regulatory action should improvements not be made.

## Local context

Harlow is a district council covering the population within the town of Harlow in Essex. The Council forms one of a number of district councils within the county of Essex, though as part of proposals for local government reform it is anticipated that this would lead to a merger with neighbouring district councils.

The Council manages a Housing Revenue Account with approximately 11,500 properties.

In the year the Council incurred capital expenditure of £91m, increased significantly following the purchase of the Burnt Mills residential development at the end of the year. Of the total capital expenditure £71m was funded through additional borrowings taken out.

The Council is registered with the Regulator of Social Housing as a result of its housing stock. From 1 April 2024 the Council was required to comply with additional consumer standards set by the Regulator of Social Housing. Following its submission to the Regulator it was rated as C3 by the regulator, meaning it was non-compliant with the consumer standards set by the regulations.

# Financial Sustainability



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

We have considered the following in our work:

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

## *Financial planning*

The Council maintains a budget timetable that sets out the framework and timetable for completing annual financial planning. The timetable commences in September of the preceding financial year, giving opportunity for the identification of pressures and targets as well as challenge of key assumptions. Included within the financial planning timetable is a Star Chamber process involving key service leads. Budgets are approved in the February prior to the beginning of the financial year.

The Council maintains a medium term financial plan, covering a 3 year period, which is updated on an annual basis. This is designed to identify where there are longer term funding pressures and ensure that appropriate action is taken to retain a sustainable funding position for the Council.

During the year the Council developed its financial plans for 2024-25. In its initial medium term financial plan it had identified a budget gap for 2024-25 of £1.8m, though this was closed during the 2023-24 year and the Council had identified a balanced budget moving into 2024-25. However, there were gaps identified for 2025-26 onwards, with savings of c.£3m identified as required for the 2025-26 year.

## *Financial position*

The Council has a general fund balance of £3.7m as at 31 March 2024. It also has an earmarked reserves balance of £25m within the general fund for known or anticipated pressures. The Council has been able to maintain a consistent level of general fund balance year on year.

The Council also has a Housing Revenue Account (HRA) balance of £10.8m as at 31 March 2024, though this has reduced from £13.8m as at 31 March 2023. The Council set a minimum level of uncommitted HRA reserves of £3.5m, therefore it continues to have headroom against the minimum required level of reserves it has set internally, however as with many Councils there is ongoing pressure on HRA budgets that are required to be balanced against a need to ensure that properties comply with standards.

# Governance



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

We have considered the following in our work:

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

## *Risk management arrangements*

The Council has established a risk management strategy that sets out the basis on which risks are expected to be managed across the Council. The strategy sets out expectations for the process that will be used to manage risks that have been identified and processes for identifying risks within the Council.

The Council has a strategic risk register in place that sets out the key risks that have been identified to the achievement of the Council's strategic objectives. At the time of drafting there were 14 strategic risks that had been added to the strategic risk register and were determined to be the most significant risks facing the Council.

However, the Council does not have operational risk registers in place for the management of risks that do not meet the threshold to be considered the most significant risks facing the Council. It is important that there are risk management processes in place at an operational level as well as the strategic risk register so that risks arising within individual services or across the Council that do not currently meet the threshold for a strategic risk are appropriately mitigated. This also enables timely escalation of risks to the strategic risk register should they grow in magnitude.

While we understand that the Council is currently planning workshops with operational risk managers to occur during 2025-26 and developing templates for implementation across its operational services we considered that this represented a significant weakness in the arrangements that were in place during 2023-24. This is because we consider this to be a key element of the processes necessary to ensure that value for money is being achieved in the Council's operations.

# Governance



## ***Compliance with consumer standards***

From 1 April 2024 the Council was required to comply with consumer standards overseen by the Regulator of Social Housing. During 2023-24 the Council assessed its compliance with the standard and submitted information to the Regulator of Social Housing.

The Council has been rated a C3 rating for its compliance with the standards. This was in relation to its compliance with fire safety standards. This was because fire risk assessments had only been performed for approximately 20% of the residents requiring them and there were over 500 high risk actions requiring implementation from those completed.

Since the issuing of the regulatory judgment the Council has undertaken a program of reviewing its housing stock that had not been risk assessed in order to determine a full schedule of actions required. A governance structure has been established to oversee implementation with regular reporting to the Cabinet of progress with closing actions.

We reviewed the progress made to date with the implementation of the action plan. As at 18 August 2025 the Council had 10,325 outstanding actions to take in response to risk assessments that had been completed. It has developed a trajectory to reduce the number of outstanding actions to zero by August 2026.

We deemed this is not a significant weakness as the standard was applicable from 1 April 2024 and because there is an appropriate action plan in place with appropriate governance arrangements in place to oversee its implementation.

## ***Financial reporting***

During 2023-24 the Council had a significant backlog of accounts that had not been audited. Disclaimer opinions have subsequently been issued relating to periods from 2019-20 up to 2022-23 as insufficient work had been performed ahead of the statutory backstop.

The draft 2023-24 accounts were due to be published for inspection in May 2024, however they were not published until December 2024, seven months after the deadline. During the audit the finance team struggled to have capacity to respond to our requests for supporting information. In particular the information required to be able to provide value for money assurance was not provided until August 2025, six months after the statutory backstop for signing the annual report and accounts.

We note that a number of factors contributed to the backlog of outstanding audits for the Council, and that the need to close down a number of audits put additional pressure on the finance function. However, the challenges in publishing the accounts for inspection and being able to provide the information provided for audit represent a significant weakness in the arrangements to prepare financial statements on a timely basis.

# Governance



## *Decision making*

In January 2024 the Council approved the purchase of a 172-unit mostly residential development within the town. This had been completed by a private property developer that had been unable to obtain sufficient interest in private sale for the development and had commenced negotiations to sell the site to another local authority. The site was to be used for a combination of private rental and housing homeless individuals from the borough.

The business case for the acquisition was approved based on the strategic purposes of increasing the housing of homeless tenants having a detrimental impact on the town. The Council also undertook financial modelling to assess the commercial viability of the transaction, though this had not been fully completed at the time that the business case was approved.

Following completion of the modelling it was reviewed by an independent third party, which concluded that the Council's model worked as expected but had utilised optimistic assumptions, in particular those relating to void rates. The independent review determined that when apply their benchmark assumption for void levels, along with consistent levels of cost and rental inflation that the project would generate a cash flow deficit of £139m.

We understand that the independent assurance was received very close to the planned timescales for completion of the acquisition and that therefore the review of its findings would have been completed informally. We have been unable to see documented evidence of the Council's review of the report to assess the appropriateness of the assumptions that had been adopted or to assess whether it remained appropriate to complete the transactions. Similarly we could not see documented evidence of the risk identified having been communicated to Cabinet after decision making was delegated. While we note that there is no requirement for this within the Constitution, we consider given the materiality of the potential risk identified that it would have been appropriate for there to be a notification of this so that members were aware.

We note that the Council has received advice at a later date and had further review of its model since the acquisition to support the assumptions that have been incorporated and has implemented measures in order to mitigate the risk to the Council as part of its contracting for the management of the property.

We considered there to be a significant weakness as we were unable to identify a formal audit trail of how the independent report received had been reviewed prior to completing the acquisition in order to ensure that it remained appropriate or how the risk associated with the report had been communicated given the materiality of the projected deficit at the time of entering into the purchase.



# Improving economy, efficiency and effectiveness



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

We have considered the following in our work:

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

### *Efficiency planning*

The Council utilises its medium term financial plan as the starting point for determining the level of efficiencies required. This forecasts a budget gap for a three year period in order to determine where efficiencies need to be identified. There is a star chamber process in place in order to commence the financial planning cycle and services are expected to consider where they are able to implement efficiencies.

Where potential savings are identified business cases are expected to be developed to summarise the plan and this is reviewed by the senior management team in order to provide approval ahead of implementation.

During the year the Council identified £0.3m of savings programmes to implement for 2024-25 as part of developing its medium term financial plan and annual budget for 2024-25. The most significant of these related to cancelling IT subscriptions and a rental increase on garage rents.

### *Performance reporting*

During the year the Council utilised data published by Oflog to consider how its performance compared to its peers across a range of indicators. In each of these the Council benchmarked its performance against a median score in England for district councils, being the most relevant local peer group.

This includes a broad range of performance measures, including financial performance measures in areas such as council tax collection rates and reserve levels, planning, complaints and refuse.

Performance is reported on a monthly basis to Cabinet as part of a performance, finance and risk paper. The performance report is published on the Council's website as part of the Cabinet papers so that it is open to scrutiny by all.

We note that since the end of the year under review the Council has implemented further service line reviews at a senior management team level, with these reviewing the operational performance, finances and risk position of the service line.

# Significant Value for Money Risk



1

## Risk management

Risk that value for money arrangements may contain a significant weakness linked to Governance

### Significant Value for Money Risk

#### Description

We identified that the Council did not have operational risk registers in place in order to manage risks that did not meet the criteria for recognition on the strategic risk register.

The Council's risk management strategy sets out the processes that are expected to be followed in managing risks that arise, however it does not set clear expectations for how operational risks will be managed or where they will be overseen.

### Our response

#### Response

- We assessed the completeness of the strategic risk register to assess whether there were clear thresholds for what was recorded on it.
- We reviewed the risk management strategy in order to assess whether there was clear guidance on how operational risks should be managed.
- We performed inquiries with risk managers in order to assess the completeness of risks they recorded and how they were being managed.

### Our findings

#### Findings

We determined that there were not consistent processes in place for recording and managing operational risks occurring within services. While service leads were aware of key risks affecting their services we were unable to identify that they were consistently recording those risks or had formally set out mitigations that could be monitored and their effectiveness assessed.

#### Conclusion

Based on the findings above we have determined that there is a significant weakness in arrangements relating to the governance domain.

# Significant Value for Money Risk



2

## Compliance with consumer standard for housing

Risk that value for money arrangements may contain a significant weakness linked to Governance

### Significant Value for Money Risk

#### Description

The Council was determined by the Regulator of Social Housing to be non-compliant with the consumer standard relating to its housing stock. In September 2024 it was issued a grading of C3 relating to its compliance.

The Council is required to complete fire risk assessments for all of its properties. At the end of 2023-24 these had only been completed for approximately 20% of properties and there were a large number of outstanding actions identified from the assessments.

### Our response

#### Response

- We assessed the Council's progress in completing fire risk assessments for its portfolio of housing stock.
- We assessed the Council's progress in implementing actions identified from the fire risk assessments.
- We assessed the design of the action plan for achieving compliance with the Consumer Standard.
- We reviewed correspondence between the Council and the Regulator of Social Housing.
- We assessed the governance arrangements in place for overseeing the Council's compliance with the standard and implementation of its action plan.

### Our findings

#### Findings

The Council has completed fire risk assessments across all properties and has a well designed action plan to implement the actions required. While many actions were still outstanding at the time of our review there was appropriate oversight and scrutiny by Cabinet of performance and strong engagement with the regulator. We did not therefore consider there were any significant weaknesses in arrangements at the time of preparing our review.

#### Conclusion

Based on the findings above we have determined that there is not a significant weakness in arrangements.

# Significant Value for Money Risk



3

## Acquisition of Burnt Mills

Risk that value for money arrangements may contain a significant weakness linked to governance

### Significant Value for Money Risk

#### Description

In March 2024 the Council acquired a residential development within the town. The decision to purchase the asset was made at short notice due to an expectation that it would be sold imminently to an alternative purchaser.

The Council has taken on significant additional, short-term borrowing from other local authorities in order to finance the acquisition.

It is intended that the property will be transferred to an LLP between the Council and its subsidiary in order to manage in future, providing a mixture of housing and commercial space.

### Our response

#### Response

- We reviewed whether there was an appropriate business case for the acquisition prior to the purchase.
- We assessed whether there were appropriate governance structures in place to approve the purchase of the property.
- We assessed whether appropriate consideration had been given to the impact of the purchase on the Council's Capital Financing Requirement and whether the additional borrowing required was affordable in line with the Prudential Borrowing Code.

### Our findings

#### Findings

While the business case went through an appropriate governance structure at the time of it being approved financial modelling of the project had not been completed, therefore there was not a detailed commercial business case.

The Council subsequently developed a financial model and had this independently reviewed. The independent review identified that assumptions used were optimistic, in particular void rates. Using benchmark void rates generated a deficit of c.£140m.

We were unable to identify that the Council had formally reassessed the business case in response to the review or had reassessed the decision to proceed with the purchase as there was not a formal audit trail to support this.

#### Conclusion

Based on the findings above we have determined that there is a significant weakness in arrangements relating to governance.

# Significant Value for Money Risk



4

## Capacity of finance function

Risk that value for money arrangements may contain a significant weakness linked to governance

### Significant Value for Money Risk

#### Description

The Council was required to prepare its draft annual report and accounts for inspection by May 2024, however drafts were not available and published on the Council's website until January 2025.

It has not been possible to provide the anticipated substantive assurance over the transactions and balances within the accounts due to the capacity of the finance function to provide the support required.

A statutory backstop deadline for completing and auditing the annual report was set of the end of February 2025, however this date has not been achieved as the information necessary to provide value for money assurance was not available until August 2025.

### Our response

#### Response

- We assessed the staffing model of the finance function and whether this was sufficient to meet its statutory duties.
- We assessed the causes of gaps within the staffing of the finance function.
- We assessed the impact of the gaps identified on the Council's ability to meet its statutory duties.

### Our findings

#### Findings

We note that the Council had unavoidable vacancies within key positions during the period under consideration, including long term sickness of the Section 151 officer.

While we note that interim arrangements were put in place key positions within the finance team were not resourced or backfilled during the year, which meant that there was not capacity to produce the financial statements or respond to audit requests on a timely basis.

As a result the Council has not been able to finalise its annual report and accounts by the statutory backstop date and it has not been possible to progress obtaining substantive assurance in a number of planned areas.

#### Conclusion

Based on the findings above we have determined that there is a significant weakness in arrangements relating to governance.

# Value for Money: Recommendations



The recommendations raised as a result of our work in respect of significant value for money weaknesses in the current year are as follows:

#	Grading	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	Other	<p>The Council does not have operational risk registers established or a consistent process for ensuring that operational risks are recorded, mitigating actions identified and oversight provided. While the most significant risks are recorded on a strategic risk register there is a risk that lower risks are not appropriately identified and managed before escalating into a more strategic risk.</p> <p>The Council should update its risk management strategy to set expectations for the management of operational risks. Operational risk registers should be established, which would usually include a corporate risk register capturing Council-wide operational risks and service risk registers held within the individual services.</p>	<p>Management are aware there are not currently formal operational risk registers, although service departments are aware of their risks and escalate accordingly. Management have captured this as an action within the Annual Government Statement 2024/25. Management have been working on ensuring this action we are undergoing an exercise of operational risk workshops across the council and rolling out templates for service departments to utilise. This will ensure EMT and members have formal oversight of operational risks of the council moving forward. Management have also reviewed the Risk Management Framework in which cabinet has endorsed.</p>
2	Other	<p>The Council commissioned an independent review of the commercial model developed for the Burnt Mills acquisition, which identified that the assumptions used, in particular relating to voids, were optimistic and forecast that a significant deficit would be made using their most likely assumptions.</p> <p>We were unable to identify a formal audit trail of reviewing its initial decision in light of the assurance received prior to completing the acquisition.</p> <p>The Council should consider when there are material risks or changes identified from decisions that have been delegated having a feedback mechanism to report back on these, either through its risk management processes or a decision summary, so that members are aware of any significant changes that have been made to approved plans or risks that were identified.</p>	<p>Management have discussed with the auditors of their concerns and are extremely disappointed with their findings and decision. Whilst we recognise there was no evidence that the independent review of the financial model was formally assessed. The council continuously reviewed the model and assumptions contained within it at multiple stages of the process, which included discussions on void rates. This included members and officers at the highest level. The council has taken the auditors feedback and will turn this into a positive outcome by ensuring evidence is formalised for future decision making when decisions are delegated. The changes within the new constitution will reduce this risk in future</p>
3	Other	<p>The Council has had significant resourcing gaps within its finance function during the period under review. The current resourcing model struggles to identify capacity to respond to the requirements of audit during the year when there are additional activities underway. This has led to delays in publishing the 2023-24 accounts for inspection and in providing the value for money support required to complete the audit in time for the backstop date.</p> <p>A review of the finance team staffing model should be undertaken to ensure that it can respond to all of the requirements of the finance function, including audit requirements. Where vacancies arise these should be appropriately resourced during the year to ensure that all responsibilities can be discharged.</p>	<p>Management recognise the finance function has not been fully resourced and have taken steps to ensure that there is now increased capacity. The structure was reviewed at the beginning of the year, and a recruitment exercise has taken place. New members of staff are currently being onboarded within the team subject to awarding contracts.</p>



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