

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RUSHMOOR BOROUGH COUNCIL

Disclaimer of opinion

We were engaged to audit the financial statements of Rushmoor Borough Council ('the Council') for the year ended 31 March 2023. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement
- the related notes 1 to 43
- Collection Fund and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13th December 2024.

The audit of the 2021/22 financial statements for Rushmoor Borough Council was not completed for the reasons set out in our opinion on those financial statements dated 26 November 2024. The backstop date and the wider requirements of the local audit system reset meant we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2022/23 financial statements. Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit, performed subject to the pervasive limitation described above, or our knowledge of the Council.

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

We have nothing to report in these respects.

Report on the Authority's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you if we are not satisfied that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

On the basis of our work, having regard to the Code of Audit Practice 2024 and the guidance issued by the Comptroller and Auditor General in January 2023, we have identified the following significant weaknesses in the Authority's arrangements for the year ended 31 March 2023.

Significant weaknesses in arrangements

Weakness in arrangements to secure future financial sustainability

Weakness identified

At the end of 2022/23 the Authority did not have adequate arrangements to reduce its recurrent level of revenue spending so that it can be contained within available resources without the need to call on reserves or reduce the level of planned service provision. In particular, the Authority did not have arrangements to reduce its very high level of short-term borrowing to mitigate the impact of this on its revenue budget over the medium term and reduce the level of interest rate risk it is currently exposed to.

The evidence on which our view is based

- The level of actual overspending against the revenue budget in the 2022/23, and the planned further call on reserves of £16.6m for the period 2024/25 to 2027/28 to be able to balance the budget without the Authority taking steps to significantly curb spending.
- The Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy 2023/24 was presented at the Council meeting on 23 February 2023. It concluded that at 31 December 2022, the Council held £100.0m of short-term borrowings. The Council's plan was that it expected to borrow up to £27m in 2023/24. At the commencement of 2022/23 the Council had a Capital Financing Requirement (CFR) of £121.9m in relation to a specific elements of capital expenditure incurred in the previous financial year (2021/22). The borrowing that was planned in 2022/23 required Minimum Revenue Provision to be charged to the Council's General Fund Revenue Account in 2023/24 and future years. The actual borrowings for 2023/24 was £42m compared to the planned borrowings of £27m.
- The level of external borrowing held by the Authority and the proportion of this borrowing that is short-term. Changes in the wider UK economy at the reporting date, and specifically increased inflation and increased interest rates, also put further pressure on the Authority's finances. Total borrowings at the end of 2022/23 were £120m. This was 91 per cent of the liability benchmark established under the prudential framework and 86 per cent of the Capital Financing Requirement.

The impact on the Authority

The current level of recurrent over-spending and high level of short-term borrowing will result in the Authority being unable to set a balanced budget for 2026/27 unless mitigating action is taken, which could include the need to reduce the planned level of future service provision.

Action required by the Authority

The Authority needs to fully implement and action its Financial Resilience Plan which contains a range of medium and shorter-term actions designed to ensure its financial sustainability. Specifically:

- Develop and implement appropriate arrangements to deliver a permanent removal from the base budget of £0.5m each year for the four years commencing 2024/25.

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

The issues above are evidence of weaknesses in proper arrangements for sustainable delivery of services in accordance with strategic and statutory priorities.

We consider the issues above as evidence of weaknesses in arrangements in relation to:

Economy, Efficiency and Effectiveness, including:

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

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 7, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Councils financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in November 2024, as to whether Rushmoor Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Rushmoor Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Rushmoor Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

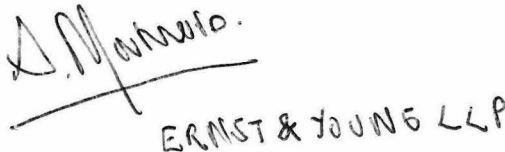
We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Rushmoor Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Rushmoor Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



A handwritten signature in black ink, appearing to read 'S. Mathers', is written over a horizontal line. Below the line, the text 'ERNST & YOUNG LLP' is printed in a bold, sans-serif font.

Simon Mathers (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
13 December 2024

The following footnote does not form part of our Auditor's Report.

Additional information related to the disclaimer of opinion is set out in our Completion Report for Those Charged with Governance dated 11 December 2024, available on the Authority's website, which includes further explanations about the implementation of the statutory instrument which led to the disclaimer of our opinion on the financial statements.