



AUDIT COMMITTEE

4 November 2025

SUPPLEMENTARY AGENDA

PART 1

8. URGENT PART 1 BUSINESS

To consider any Part 1 business accepted by the Chair as urgent.

AUDITOR'S ANNUAL REPORT 2024/25

This report must be considered at this meeting, as the revised Audit Code of Practice 2024 requires local authorities to submit their Auditor's Annual Report by 30 November each year.

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Stevenage Borough Council

Auditor's Annual Report
Year ended 31 March 2025

October 2025

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Headlines from our audit

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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	Narrative report and Annual Governance Statement	Value for money
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 3 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.	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.	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. As part of our work we followed up on the recommendations raised in the prior year. 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	Statutory recommendations	Advisory notice	Judicial review	Application to the court
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.	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.	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.	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.	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

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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 on 3 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

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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.

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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

Stevenage Borough Council (the Council) is a district council in Hertfordshire. It works with nine other district and borough councils and Hertfordshire County Council (which includes Hertfordshire Fire and Rescue Service) in a two-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. The Council is well run, enthusiastic about its focus as a driver of community growth and regeneration and committed to the achievement of its objectives. The Council provides a wide range of services to the residents of Stevenage including refuse and recycling collections, leisure facilities and maintenance of the public open spaces in the district. In addition, the Council has responsibility for environmental health issues and ensuring new buildings comply with legislation.

The Council provides social housing from its Housing Revenue Account (HRA) and has entered into a number of large capital and investment schemes to promote regeneration, attract business to the area and support its ambition to become a growing 'tech-hub' location of choice. Some of these investment schemes carry significant financial risk, although management continues to identify and explore mitigation options. The Council faces, over the medium term, growing financial challenge and increasing uncertainty over its longer-term income predictions, particularly in respect of HRA, local government reform and its investment in the Queensway 'income strip' investment. Whilst this latter investment has brought wide and varied non-cash benefits to Stevenage and its regeneration agenda, the scheme itself continues to underperform financially, requiring additional investment to offset annual financial losses.

Like all councils and the wider local government sector, Stevenage Borough Council continues to face significant challenges, although *Fair Funding 2* is likely to have a positive impact on the Council's finances. 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 Stevenage Borough Council 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 continuing higher inflation and higher interest rates impacts local communities, including the community the Council serves in Hertfordshire. 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.



Value for money

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.

Stevenage Borough Council has arrangements in place to mitigate the macro-risks posed by the national context and, at present, a reasonable level of general fund reserves, together with a further £5.3m of earmarked reserves held to provide additional resilience if required. 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.

Progress on prior year recommendations

Following the imposition of the statutory backstop, we issued our Auditor's Annual Report for 2023/24 in May 2025. As part of this, we raised a number of improvement 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. We have undertaken our review within this context. Notwithstanding this, management has been proactive in responding to the recommendations and commissioned an external specialist report to support their implementation. We have reflected this in our consideration of progress against prior year recommendations later in this report.



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. Hertford is in the third wave of reorganisation. Final detailed proposals are to be submitted in September 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.

Page 14 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. The Council has set aside funding in 2025/26 in addition to the Government funding a further £150k in 2026/27 and 2027/28.

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.



Value for money

For Hertfordshire, 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 Stevenage, 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.

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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 £6.5m, an increase from the general fund balance at 31 March 2024 of £5.3m. This is as a result of a £1.2m contribution to the general fund reserves, which is higher than originally planned in the Medium Term Financial Strategy of £0.6m. The level of earmarked reserves increased during the year from £8.8m to £11m, meaning the overall level of useable general fund reserves available to the Council now stands at £94.1m, compared to £79.4m a year ago. This is a reasonable level of reserves; the Council’s net expenditure on services in 2024/25 was £6.9m 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 £6.5m as at 31 March 2025, whilst currently healthy at £3.1m higher than the Council’s minimum level of £3.4m, is the true reserve for ‘unanticipated’ cost pressures. Notwithstanding this, the earmarked reserves also include an Income Equalisation Reserve (£0.8m) and NNDR reserve (£4.6m). These are available to further support financial resilience and manage risk, over and above the general fund position.

Ring fenced reserves for the Housing Revenue Account (HRA) stood at £10.9m at 31 March 2025, a marginal increase from the prior year position of £10.6m. However, the earmarked HRA reserves reduced from £20.7m a year ago to £17.3m at the end of 2024/25, reflecting the financial pressure facing the HRA.

Medium term financial strategy

The Council’s assumptions in its medium term financial strategy (MTFS) are not unreasonable but there is risk attached to them. The strategy assumes pay increases of 3% in 2025/26, reducing to 2.75% in 2026/27 and 2.25% in 2027/28. It assumed a CPI reducing to 2% during the period the MTFS covers, as well as continuing to plan for some higher inflationary increases of 10% for electricity and gas up to 2029/30. The risk remains that the anticipated reduction in inflationary pressures in the later years fails to materialise. Inflation currently remains at 3.8% as of September 2025 and may remain high for longer than hoped for. Higher inflation will put increased pressure on pay budgets, which may offset the anticipated falls in pay inflation hoped for from 2025/26 onwards. The Council highlight in their MTFS that it is difficult to predict the sustainability of lower inflation over the medium term but have included rationale as to why they consider the current assumptions to be appropriate.



Value for money: financial sustainability

The '*Balancing the budget*' report to the November Cabinet has revised inflation upwards and illustrates what a 3% pay deal would cost. In addition, the Council expects reserve balances to significantly increase as a result of *Fair Funding 2*.

Some of the key assumptions for inflation have been justified on the basis of actuals as well as considering the target inflation rate set by the Bank of England. Other costs have also been built into the MTFS and include increases in employers' national insurance as well as costs associated with the triennial pension review. The MTFS also includes other general fund pressures and pulls these out within the strategy along with clear rationale as to why they have been considered. This factors in an additional £1m of pressure from 2026/27 to 2028/29 into the MTFS and demonstrates a prudent approach by the Council.

The Council complies with the Budget and Policy Framework Procedure Rules as set out in the constitution, which outlines the timeframes for setting their budget. The Revenue Budget for 2024/25 and the General Fund Medium Term Financial Strategy (MTFS) was approved by Council in February 2024. The HRA Revenue Account (HRA) Budget was approved by Council in January 2024. The MTFS is based on the Council's Corporate Plan which is published on the Council's website for 2024 – 2027.

Page 17 The Council has identified the MTFS as "the vehicle by which the Council identifies resources to deliver the Corporate Plan". The MTFS covers both the General Fund revenue resources and those for the HRA. Both are supported with resources in the Capital Programme.

The MTFS is updated on a regular basis and covers the next five years on a rolling basis. This enables the identification of future budget gaps which can then be proactively managed. The Council has a strategy for addressing these funding gaps through their "Balancing the Budget" (BTB) process. This incorporates savings through efficiencies, transformation programme and other insourcing activity. The Council reported to Cabinet in November 2024 that since 2010/11, £15.4m of savings had been identified up to 2024/25. This has meant the Council has not had to cut services and has been able to continue to fund both statutory and discretionary services. Identifying and implementing savings has become a key area of focus for the Council over the past few years and continues to be a priority. This is in response to the Council's core spending power reducing which is a result of a reduction in government funding, a 10% population increase and compounding inflationary pressures. This further illustrates that the Council is expected to "do more with less".

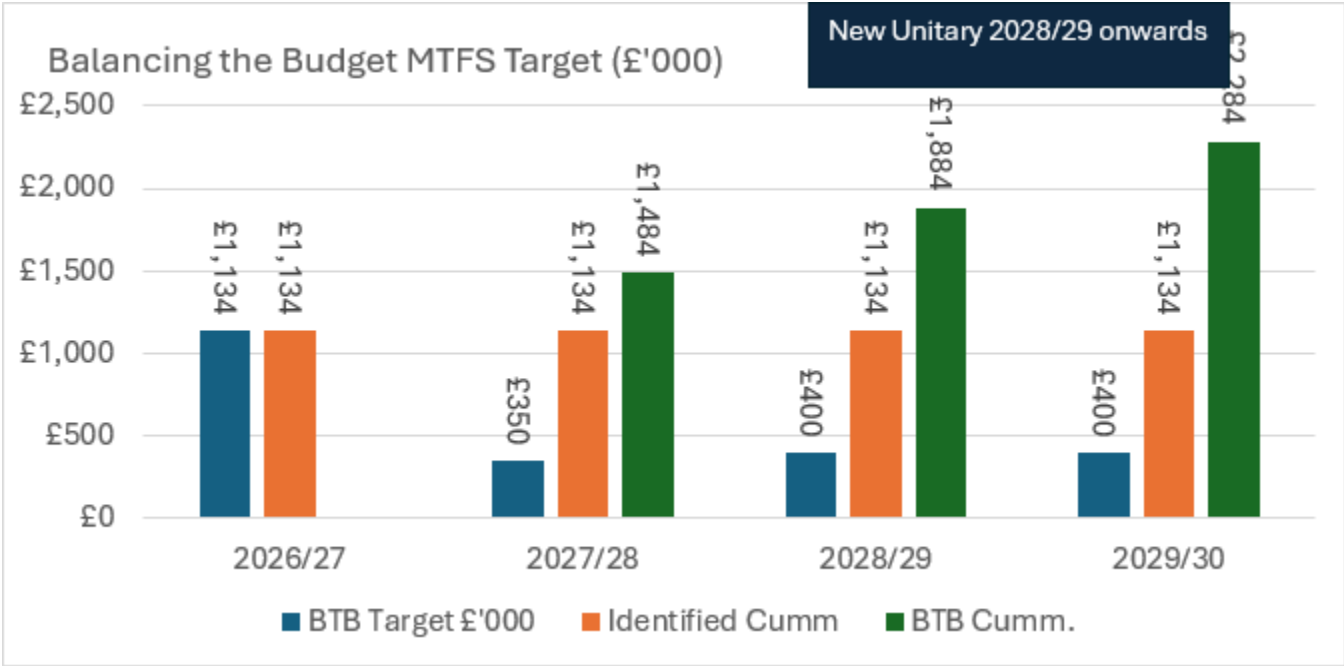
The MTFS assumes the savings targets will be achieved in full to avoid further reliance being placed on in-year use of general fund reserves over the period to 2028/29. Whilst not unachievable, this will require robust monitoring and corrective action to address at an early stage any signs of slippage or changes in the risk profile or achievability of savings.

Savings have been identified by the Council as becoming an integral part of balancing the budget to ensure the council is financially resilient in the medium to long term. The budget for 2024/25 included growth pressure of £2.2m. This included £1.4m of inflationary pressure and £0.3m reduction in car park income. Savings options of £1.3m were approved by Council on the 21 February 2024 for 2024/25. As reported to Council in February 2025, cumulative savings have been achieved since 2010/11 to 2024/25 of £15.4m, with £1.8m achieved in 2024/25. The *Balancing the budget* report to Cabinet in November 2025 reported that the savings targets are now lower and over £1m of savings identified for 2026/27, as can be seen over the page.



Value for money: financial sustainability

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Balancing the Budget Savings Summary	2026/27	2027/28	2028/29
MTFS	£766,606	£839,616	£843,364
Fees & charges (October Cabinet)	£314,000	£314,000	£314,000
Taxi Licences (October Cabinet)	£33,000	£60,000	£60,000
Commercial Option (October Cabinet)	£22,500	£100,000	£100,000
Star Chamber	£84,640	£105,970	£132,370
December Cabinet report (for note)	£110,000	£110,000	£110,000
Total	£1,285,746	£1,529,586	£1,559,734

Source: Balancing the budget, November 2025



Value for money: financial sustainability

Notwithstanding the challenging financial pressures over the MTFS period, the Council's arrangements for identifying its financial and economic risks and understanding its position are strong. The MTFS 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 MTFS 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 MTFS are well-understood and well-articulated and the MTFS is a detailed, granular strategy with an in-depth level of consideration across all areas of funding, costs and risks.

Housing Revenue Account (HRA)

The Council maintains a Housing Revenue Accounts (HRA) which records income and expenditure on running the Council's own housing stock and related services primarily for the benefit of the Council's tenants. The draft statements of account report a net surplus for the Housing Revenue Account (HRA) in 2024/25 of £0.3m compared to a budget surplus of £0.2m.

The Council has a strategic plan for managing its housing stock, the "HRA Business Plan". This sets out the Council's short to medium term plans and priorities for managing its housing services and provides a long-term (30 year) perspective on stock investment and financial planning. The HRA Business Plan was fully reviewed in 2023/24 to ensure a balanced HRA financial plan for the next 30 years and to ensure there are sufficient HRA funds to support the Council's Housebuilding and Acquisitions Programme, as well as reflect new requirements placed on social housing providers under the Social Housing Regulation Act 2023. From discussions during our work with the Finance Business Partner for Housing and Investment, the HRA business plan is currently being updated again with expectations that this will be revised in November 2025.

As reported in our prior year Auditor's Annual Report, the risk associated with the HRA is increasing. Costs continue to increase, including for both regulation requirements and material costs, and this has resulted in the need for increased savings. For 2024/25, housing rent setting returned to the current Rent Standard of the September Consumer Price Index (CPI) plus 1%, which was 6.7%, resulting in a total increase of 7.7%. This is a bigger increase than in the prior year, which was 1.7%. There continues to be an increasing pressure due to the volume of repairs required and the voids created whilst those repairs are being carried out. The cost pressures have led to the Council having to scale back their ambitions on the social housing decarbonisation scheme. Service charges are not subject to a 7.7% rent increase but are based on cost recovery or actual cost. This has meant for 2024/25 service charge costs have increased with inflation and changes in usage.

The HRA MTFS sets out a £6m gap to the closing HRA balance at the end of 2028/29 and the £7m revised minimum balance requirement. The MTFS also sets out a number of future savings options to address this. This includes increasing the business plan target of savings from £500k per year to £1m per year. This would be a challenging target to achieve.

The HRA MTFS demonstrates a good understanding of the risks faced, including the increasing financial risk associated with the HRA. The assumptions, as with the general fund MTFS, are not unreasonable. Savings requirements are well-understood and articulated. The inherent financial risk is, however, continues to increase.



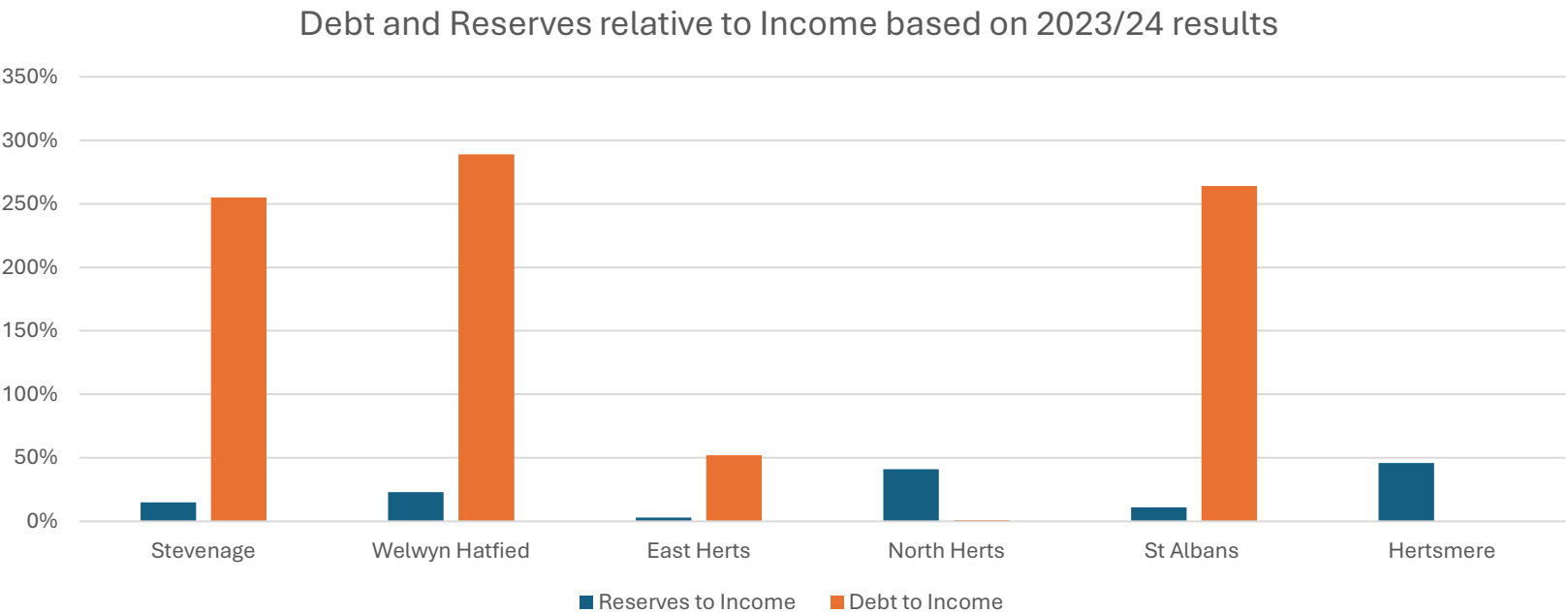
Value for money: financial sustainability

Financial resilience index and Core Spending Power

We have considered the Council’s financial resilience against the CIPFA resilience index. This uses the most recent financial information available (2023/24) and shows a number of “higher risk” indicators of financial stress. We have compared this to a number of neighbouring authorities to Stevenage to illustrate Stevenage’s position relative to the geographical landscape in which they operate. To interpret the graph, the higher proportion of reserves to income, the better and the lower percentage of debt to income, the better.

As can be seen, regarding reserves relative to income, Stevenage falls within the middle of range, and in a better relative position than both East Hertfordshire and St Albans. It also has a slightly lower debt to income ratio than the other two authorities with an HRA. This provides some comfort that in terms of Stevenage’s financial sustainability, it is not an outlier in terms of risk faced.

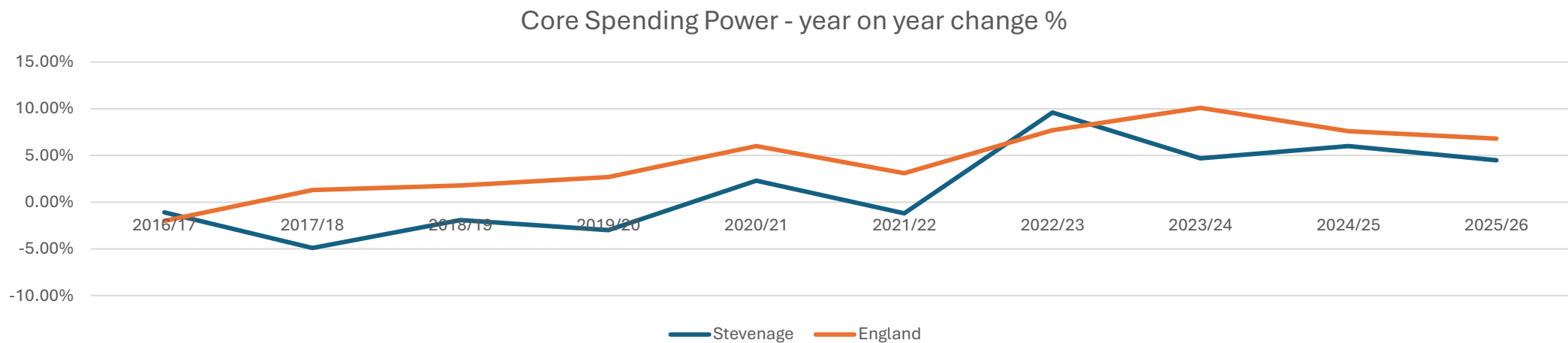
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Value for money: financial sustainability

In recent years, core spending power (CPS) tables have been published for both the 2024/25 and 2025/26 finance settlements by MHCLG. We used this data to evaluate the year-on-year change in core spending power for the Council and mapped this against the year-on-year change in the CSP for England as a whole. This generally has seen the Council fall below the change of the CSP for England with the CSP percent change difference narrowing in 2025/26. Some earlier years show a relative decrease in CSP. This further illustrates the Council’s expectation to “do more with less” over previous years, which has contributed to a challenging financial position.

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The CPS table for 2025/26 shows that since 2015/16, core spending power in England overall has increased by 54.6% overall. For Stevenage Borough Council over the same period, this has increased by 7.8%. However, per the National Audit Office, when taking into account population growth from 2015/16 to 2023/24, there has been a reduction in CSP per person of 1%.



Value for money: financial sustainability

Fair funding review

For almost a decade, the local government finance settlement has been a one-year settlement which has created medium-term uncertainty and presented challenges in medium to long term financial planning for many councils, including Stevenage Borough Council.

In June 2025, an 8-week window of consultation opened on “The Fair Funding Review 2.0”. This was a consultation on the government’s proposed approach to local authority funding reform through the Local Government Finance Settlement from 2026-27. The purpose of this review is to introduce a fairer funding system that targets money where it is needed most. Once finalised, the changes will be implemented over three years, beginning in 2026-27, through the first multi-year settlement in a decade.

The consultation sets out some key changes anticipated moving forward. These include:

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- Reaffirming the fact that 2025/26 was the last year New Homes Bonus is paid in its current format. Moving forward this is proposed to be returned to core settlement and allocated according to the updated assessment of need and resources; and

- Business rates reset.

The Council has appropriately identified and reported these key risks, changes and legislative proposals in their 2025/26 MTFS. This includes the loss of business rates gains. As at the time of this report, the consultation has closed and no further update has been published. The Council has taken a prudent and appropriate approach in terms of assumptions contained within the MTFS and will update as appropriate once a settlement has been announced and more is known about how the funding formula will work.

Overall, Stevenage Borough Council is expected to benefit from this funding review. A multi-year settlement will enable the Council to better plan for the medium term, with a clearer standpoint for their future funding. It will also benefit the Council as the review aims to ensure that funding goes to the places which need it most. Stevenage is an area with high deprivation and limited ability to raise additional income from council tax increases. It is therefore expected that this new funding formula will take this into account.



Value for money: financial sustainability

MTFS 2025/26 onwards

During 2024/25 the Council updated its MTFS for the General Fund and HRA, following the timeframes set out in its Constitution. The Council's Final General Fund Budget 2025/26 and Capital Strategy for 2024/25 to 2029/30 was approved by full Council in February 2025.

The MTFS clearly sets out the risks to the general fund, which include inflation, demand for services, local government reform, fees and charges and core funding. Projected pressures in the general fund for 2025/26 onwards are included in the MTFS, which anticipate growth pressures of £1.4m. These comprise inflation, national insurance increases and the continuing reductions in car park income which is yet to return to pre-COVID levels. Assumptions for inflation such as 2% and pay increases of 3% are considered to be reasonable, without being too prudent, although may face increased pressure if national inflation is not reduced from the current 3.8%

The MTFS for 2025/26 previously identified a savings shortfall of £1.2m for 2026/27 – 2027/28. The Council has been able to identify this early as they take a three-year view to ensure annual savings targets are achievable and to provide sufficient time to identify options to address these shortfalls with minimum impact on services. We wholeheartedly endorse the Chief Finance Officer's views that the Council's budgets should not include unidentified savings, which further supports the Council's position of ensuring financial resilience and demonstrates a robust approach to budgetary planning. The Council has identified the full £1.2m savings which have been included in the MTFS for 2025/26 onwards and these savings were taken to Cabinet in January 2025 for approval. These include raising council tax to 2.99%, efficiency savings of £0.4m and increases in fees and charges income of £0.4m. These are reported regularly to Cabinet through quarterly reporting and through the "Balancing the Budget Options 2025/26" paper. In addition, the Council has derived new targets for MTFS savings in the September MTFS (reported in *Balancing the budget* in November 2025). Savings for 2026/27 have already been identified, resulting in a £0.7m forecast in year surplus, with £0.35m and £0.4m in 2028/29.

Minimum Revenue Provision

The Council is required, each year, to set a Minimum Revenue Provision (the MRP). The MRP refers to the amount charged to the revenue budget for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt).

The underlying debt is needed to finance the capital programme. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It is therefore prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure, allowing borrowing to be matched to asset life. Setting aside an amount for the repayment of debt in this manner allows for future borrowing to be taken out to finance the asset when it needs replacing at no incremental 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.



Value for money: financial sustainability

Following consultation, MHCLG have clarified and updated the regulations and the statutory guidance for the 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.

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. An MRP is not required to be provided on HRA assets and, thus, HRA borrowing is excluded from our assessment of the MRP ratios.

Page 24 In our 2023/24 Auditor's Annual Report we undertook a high-level review of MRP ratios. In 2023/24, management provided detailed information on the general fund CFR (excluding HRA and HRA supported borrowing subject to a determination agreed with MHCLG). The residual CFR was £26.5m. The MRP in 2023/24 of £0.375m was 1.4% of the net general fund CFR, which was below the benchmark ratio of 2%. We therefore recommended that management should review the current provision in future years to ensure that the annual MRP adjustment is adequate and prudent and ensure longer term financial risks are contained.

The Council's MRP calculation is complex, due to the presence of the HRA, the income strip lease (where the MRP is discharged through lease repayments), the financing of the loan to Marshgate and specific borrowing determinations agreed with MHCLG which impact the calculation. As a result of the asset life review in 2019/20, the Council identified that they had been overpaying historic MRP and as such categorised this as 'voluntary MRP' to be reclaimed in future periods (i.e. by offsetting the charge in future years). In line with this MRP policy, this has been used against regeneration assets since 2020/21 and anticipated to be used against these assets until 2025/26 when a partial MRP charge will then be required against these assets when the 'overpaid' MRP reduces to nil. It is expected, and built into the MTFS, that the MRP will increase each year.

We have reviewed in detail the MRP calculation assumptions. Whilst these are subject to further audit as part of our financial statements work which is currently in progress, we have no significant concerns over the approach adopted. The Council had an MRP policy in place during 2024/25 and updated this for 2025/26. Under this policy the Council uses the "Asset Life Method" calculating MRP, which is Option 3 out of a total of 4 options which are allowable under statutory guidance. Under this method, MRP is spread over the useful life of the asset. This useful life is dependent on the life of the asset which was last reviewed in 2019/20 and these lives range from 7 years to 50 years. These lives are appropriately prudent for the purposes of calculating MRP. The MRP in 2024/25 is only 1.71% of the opening general fund CFR. However, this is due to the impact of the voluntary MRP 'repayment' and, once this has concluded, MRP is expected to rise above 2% in future years.

We also assessed and benchmarked the Council's MRP charge as a percentage of the total general fund borrowing. A percentage less than 3% then may indicate a higher risk of MRP being insufficient to secure longer term financial resilience. The Council's charge is 5.56%. In addition, we assessed and benchmarked the Council's total debt as a percentage of the capital financing requirement. A percentage lower than 100% is considered sufficiently prudent. The Council's ratio is 31%.



Value for money: financial sustainability

The HRA is exempt from the statutory requirement to make an MRP payment. This exemption is based on the principle that the HRA is intended to be self-financing, and its capital financing arrangements are managed separately from the General Fund. The Council’s MRP calculation is also impacted by the finance lease repayments and supported borrowing determinations agreed with MHCLG. We have therefore used the following figures in assessing the prudence of the MRP for 2024/25, taken from the 2024/25 draft financial statements unless otherwise stated.

- Opening CFR £26.4m
- General Fund borrowing £8.2m
 - MRP 2024/25 £0.454m
 - Total general fund and earmarked reserves £17.5m
- Net cost of services 24/25 £6.9m
 - Gross service revenue expenditure 24/25 £68m (*source: s151 officer*)
 - Long term borrowing including HRA £247.9m
 - Long term assets £892.6m

Overall, whilst MRP as a percentage of the opening CFR is lower than 2%, this is due to the impact of the voluntary MRP ‘repayment’. MRP is also considered prudent as a percentage of total borrowing. 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)	1.71%	< 2% then this may indicate a higher risk of MRP being insufficient to secure longer term financial resilience. However, in this instance it reflects the previous ‘MRP overpayment’ which is in place until 2025/26	
Debt as a proportion of CFR	31%	>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	255%	the lower the proportion, the greater the risk to financial resilience	
General fund and earmarked reserves as a percentage of gross service revenue expenditure	26%	the lower the percentage, the greater the risk to financial resilience	
Long term borrowing as a proportion of long term assets	28%	the higher the proportion, the greater the risk the council is over indebted	



Value for money: financial sustainability

Marshgate Ltd

The Council set up a wholly-Council-owned company called Marshgate Ltd in 2018 with the principal purpose of forming a partnership — Queensway Properties (Stevenage) LLP. The Council owns 99.9% of Queensway LLP, with Marshgate owning the remaining 0.1%. Through Marshgate, the Council has ultimate ownership of 100% of the Queensway LLP.

The operations of Marshgate Ltd were expanded in line with the HRA Business Plan. The Council provided a loan to Marshgate Ltd to purchase ten dwellings (houses) for £1.35m on the open market. Marshgate leases these properties to the HRA at social cost plus interest costs plus a further 15%. The Council contends that this is lower than the cost at which the HRA could lease similar properties from the open market. The HRA then uses these houses to provide social housing to HRA tenants. The properties can be purchased by the HRA after 25 years for 58% of the original value. This approach was used to attract additional Homes England grant funding to the company – and thus the group as a whole – for the purchase of these properties that otherwise wouldn't have been obtainable had the HRA purchased the properties directly.

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Expenditure by the HRA is tightly controlled by legislative requirements. HRA monies are ring-fenced and cannot be used for general fund purposes. Funds can also not be appropriated from the HRA and moved to the general fund.

The Housing Act 1985 specifies that a local housing authority may provide housing accommodation by erecting houses, converting buildings into houses, or acquiring houses. It does not explicitly specify whether the HRA can lease properties in order to use these properties to provide social housing. However, the Housing Act 1985 also does not appear to expressly prohibit this. Moreover, the Act does not expressly prohibit the HRA leasing houses from the general fund.

We are satisfied that, in setting up the current arrangement, management were working with the best interests of the Council and the HRA in mind: the arrangement attracted grant funding otherwise not available and the Council believes the lease costs paid by the HRA to the Council are lower than if the HRA were to lease these properties from the open market. The option for the HRA to purchase the properties after 25 years for 58% of their historic value also demonstrates intent on the part of the Council to ensure, as far as possible, the HRA is not financially disadvantaged by the arrangement.

However, the substance of the arrangement is that the HRA is paying, annually, lease costs to the general fund for properties owned, ultimately, by the general fund. Given the unusual nature of this arrangement, and given the tight restrictions over the use of HRA monies and their appropriation by the general fund, in the prior year we recommended management seek a specialist legal view over the arrangement to ensure the actions and transactions are intra vires and ensure officers and the Council are adequately protected against any potential future challenge over the arrangement. Management has sought specialist advice, expects to receive this shortly and expects it to confirm the arrangement is legally sound.



Value for money: financial sustainability

Queensway 'income strip'

Queensway Properties (Stevenage) LLP is a subsidiary of the Council through a 99.9% holding by the Council itself and a 0.1% holding by Marshgate Limited, which in turn is a wholly owned subsidiary by the Council. This therefore means the Council has 100% control of Queensway LLP.

The subsidiary was incorporated on 30 October 2018 to enable the Council to enter into an income strip agreement in relation to the Queensway redevelopment project in 2019. This agreement was part of the financial arrangements to facilitate the redevelopment of Queensway North, a mixed-use project aimed at regenerating the area. The income strip was placed within the subsidiary to provide the Council with greater freedom to develop both commercial and residential properties. The purpose of establishing Queensway LLP was to facilitate the regeneration of 85-100 Queensway and 24-26 The Forum, a large element of the new town centre. The Council has entered into a partnership with REEF (the developer, referred by the investor as part of the overall arrangement) and Aviva (the investor) to deliver a mixed-use redevelopment of the site including commercial, residential, and leisure uses.

Page 27 In 2018/19 the Council acquired a 37-year head lease from Aviva for Queensway. The total lease payments due to Aviva recognised in the Council's accounts amount to £21.623m in 2024/25 (£21.994m in 2023/24) as a lease liability. The Council has in turn leased these properties to Queensway LLP under the same terms and conditions and therefore also shows a corresponding lease receivable of the same amount.

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. The arrangement in this case supported significant investment into housing, retail, and community spaces. In essence:

- The Council enters into a long-term finance lease with the investor, in this case Aviva, and is required to make annual, index-linked lease payments for, in this case, 37 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 37 year lease, the assets are sold to the Council for a nominal amount, in this case £1.

The Council's costs – the annual lease payments to the investor – are fixed and increase annually in line with RPI (capped at 3.5%). The Council's income within the arrangement, which is needed to fund the annual lease payments, is dependant wholly upon the commercial and retail units being let and market rent levels rising sufficiently to cover the annual, increasing costs of the head lease payment. The economic risk sits with the Council – regardless of the rental income received from the asset, the Council is required to pay the index-linked lease costs to the investor for the next 37 years.



Value for money: financial sustainability

Income strip arrangements carry considerable risk:

1. Income Risk – The Council’s ability to generate sufficient income to meet the yearly lease payments. This risk sits entirely with the Council and if they are unable to secure tenants for the property, or secure the level of rental income required, they are still left with the yearly lease payment to make.
2. Inflation Risk – The Council’s ability to pass on inflation linked price increases to tenants. The yearly lease payment from the Council to the Investor is inflation linked, so the Council will bear this inflation risk if they are unable to increase income by the same rate.
3. Operating Risks – The Council is responsible for running the asset and incurring any maintenance costs or costs to manage the property, including costs to refurbish units to make them suitable to re-letting. There is a risk that these could be greater than expected or originally planned.
4. Economic risk – The Council bears the full risk of economic downturn impacting their ability to lease units or command the rental income anticipated. At the same time, the Council’s index-linked payment to the investor remains unaffected.

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The partnership had not filed accounts for 2024/25 as at the date of writing this report. We have reviewed the most recent set of audited accounts for Queensway LLP (2023/24) and noted ongoing losses reported by the subsidiary (£0.71m in 2023/24 and £0.53m in 2022/23). The partnership also has a negative balance sheet position of -£4.89m. These ongoing losses and the net liability position of the company as a whole indicate financial strain.

If the LLP continues to make losses and is not generating sufficient income in the medium to longer term to cover the lease payments to the Council, this creates a mismatch between the Council’s liabilities to Aviva and its income from the LLP. This in turn negatively impacts the Council’s overall financial position. Any ‘bailout’ or additional financial support needed for the financial viability of the partnership places additional strain on the Council’s budget. As noted, the Council has committed to a 37-year head lease with significant annual payments and lease payments are typically subject to upward adjustments (e.g., inflation-linked escalations). If the LLP’s income does not keep pace with these increases, the Council faces growing financial pressure. Within the latest MTFS approved by Cabinet in September 2024, the MTFS set aside a reserve of £0.05m each year to support financial resilience of the costs of the scheme. With current year losses of the LLP standing at £0.71m for 2023/24 alone and a negative balance sheet at £4.89m, the current reserve would not be sufficient to address the current losses.

To offset these ongoing annual losses, the Council is also planning to set aside further reserves from the revenue budget. These set asides have been approved by Members.



Value for money: financial sustainability

The income strip was carrying a cumulative loss position as at 31 March 2024 of £4.37m, compared to the July 2022 business plan expected loss position, at the same date, of £1.84m. Losses incurred are therefore significantly higher than expected, highlighting the significant financial risk associated with the current project. Historic losses include the costs of incentive payments on vacant units to partly offset the incoming tenants fit out costs, which were remunerated to the Council at the point the lease agreement was signed. The retail and office sector has proved more challenging than originally envisaged within the business plan and the Council's Directors are currently working on a new business plan.

The scheme's poor performance is attributable to a number of assumptions in the business case not being borne out in reality. This is in part attributable to the outbreak of Covid-19 shortly after the scheme's inception, which has had a potentially ongoing impact on business practice and retail performance. Business rents are significantly lower than anticipated in the business plan, and thus generating significantly less income than forecast. The business plan assumed that existing rentals would reduce by 19% but, in effect, they reduced by 39% with some vacancies persisting. In addition, voids and empty units are higher than assumed in the business case; it is harder to let units in the post-Covid climate and, when let, they are often for less rental income than hoped for. The net result is the income forecasts as a whole are not being met. However, the Council's required payments to Aviva under the scheme remain unaffected and continue to increase year on year, widening the gap between the income generated from the scheme and the costs the Council has to pay the investor. There are another 30 years before the scheme concludes and the risk that Council lease payments become unaffordable is significant.

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The business case of the scheme also relied on the fact that the asset in question would be worth sufficient value at the end of the scheme that the payments made by the Council would be considered good value for money. With falling rental yields, there is a risk that the Council will have ended up paying significantly more for the asset than its value by the conclusion of the scheme in 30 years. There is a risk that the poor performance of this investment vehicle and the large, in-built costs results in a potentially unmanageable deficit that could threaten the Council's financial sustainability. 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 continued 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 3.5% each year.

The negative net asset position of the LLP and ongoing losses raise questions about whether the transaction is delivering value for money, as the redevelopment project may not be generating sufficient rental or commercial income to justify the scale of investment. We recommended in our previous report that the Council should assess whether assumptions underpinning the project (e.g., expected income levels, occupancy rates) remain realistic as outlined in the business plan. There is a further risk that if the Council has to subsidise the LLP or cover any shortfalls, this could divert funds from other critical public services or find itself in significant financial challenges.

We identified as part of our commentary in our Auditor's Annual Report published in May 2025 a number of recommendations in relation to the Queensway income strip. Management has commissioned an external specialist report to inform the position which is due shortly and expected to be available to the November Audit Committee.



Value for money: financial sustainability

Queensway 'income strip' – non financial benefits

Management is keen to stress that the business case for the income strip scheme was not just financial: the regeneration opportunities it provides and the indirect consequential income received (for example, a regenerated town centre attracts more visitors to the area, increasing parking income amongst others) offset the financial underperformance of the scheme to an extent. In addition, regardless of its value, the Council will retain ownership of the asset as a whole at the end of the arrangement, albeit the total cost paid under the income strip arrangement for this asset may be significantly higher than if the asset had been purchased and developed outside of the income strip investment.

The Council has reported that *"The Queensway North development was initiated as a catalyst for regeneration in the town centre. Regeneration had been stalled for around 15 years, and there was a need to deliver a high-impact intervention that could act to slow the decline of a struggling town centre. In 2018, the Council was progressing its procurement of a developer to deliver the SG1 programme, but there was a recognition that it would still be a number of years before this was realised. Working with funder Aviva and Developer Reef Origin, Queensway North created the opportunity to regenerate a key town centre site without requiring the Council to fund the full £45Million upfront."*

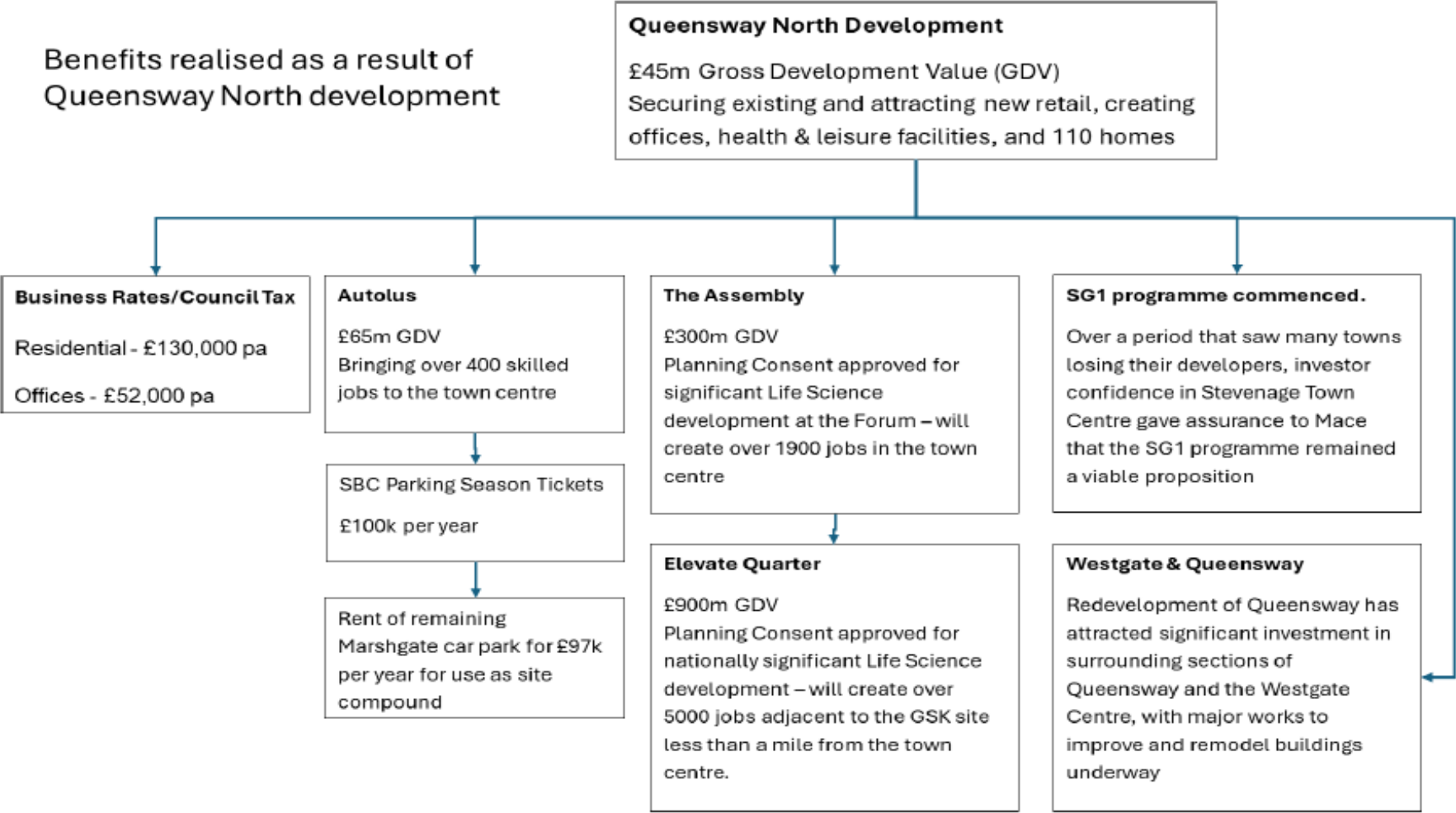
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The Council further stated *"The direct benefits realised by the Queensway regeneration scheme include the enhancement of the existing shop fronts, canopies and facades, exciting new retail, fitness and food and beverage offers, rebranding the wayfinding and enlivenment, and the development of 110 brand new residential apartments in Queensway and Marshgate which is located behind Queensway. The aims of the scheme were to reposition the retail, create an enticing environment for retailers and customers, increase the night-time economy, improve the public realm, enhance new retail and leisure spend, increase dwell times, let vacant accommodation and increase occupational income and lease terms with existing tenants."*

The Council has also set out the wider benefits which it reports the scheme has generated (see over the page). Whilst the scheme may be financially underperforming, management is of the view that the success of the scheme should be assessed taking the wider financial and non-financial benefits are taken into account. In addition, the Council's actions to de-risk the scheme at the business case stage – namely by agreeing to cap the annual inflationary uplifts to 3.5% – has limited the impact of economic downturn on the financial performance of the scheme. During the period where the Council's annual uplifts were capped at 3.5%, RPI increased as high as 14.2% and, over the period to date, averaged at 5.4%. This action has significantly reduced the costs the Council would otherwise have had to pay over the period had its increases been subject to full RPI.



Value for money: financial sustainability



Value for money: financial sustainability

In our previous report we recommended that management should draw up and progress formal mitigation strategies to prevent further ongoing losses from the scheme and, if this is not possible, consider options available to withdraw from, buy out or otherwise exit the scheme in a way which minimises losses to the taxpayer. We also recommended management should re-consider the performance of the scheme by updating the business case with known current income and costs and updated projections to assess whether the scheme remains one in which the Council should remain involved longer term, and identify the point at which the scheme performance renders it onerous and make plans for what actions should be taken in this eventuality. Linked to this, we recommended the Council ensure the subsidiary has a clear plan in place to improve the financial position of the subsidiary company and that the assumptions contained within the business plan are reviewed and updated on a regular basis.

Management has initiated a range of mitigations to offset or mitigate ongoing losses. This includes working with the developer on a revised business plan with options to increase revenue and reduce costs, increasing residential rents to offset losses on commercial rents, and reviewing options to reconfigure hard-to-let commercial units. This proactive and responsive action demonstrates not only management's awareness of the risks but also their commitment to mitigation.

Value for money: financial sustainability

The Group position

The Council's group position is set out to the right.

Swingate LLP is a new joint venture with Mace Developments (Stevenage) Limited on the former Swingate site building in Stevenage. The aim of this joint venture is to deliver a regeneration project in the centre of Stevenage and comprises of 261 new homes and a commercial space. The expected completion date will be 2026/27. 2024/25 was the first year of the operation and the Council lent £1.9m as part of the total planned investment total of £9m into the joint venture in 2024/25, with Mace committing to the same. The General Fund uses the NNDR reserve to fund the cost of lending the equity to the joint venture.

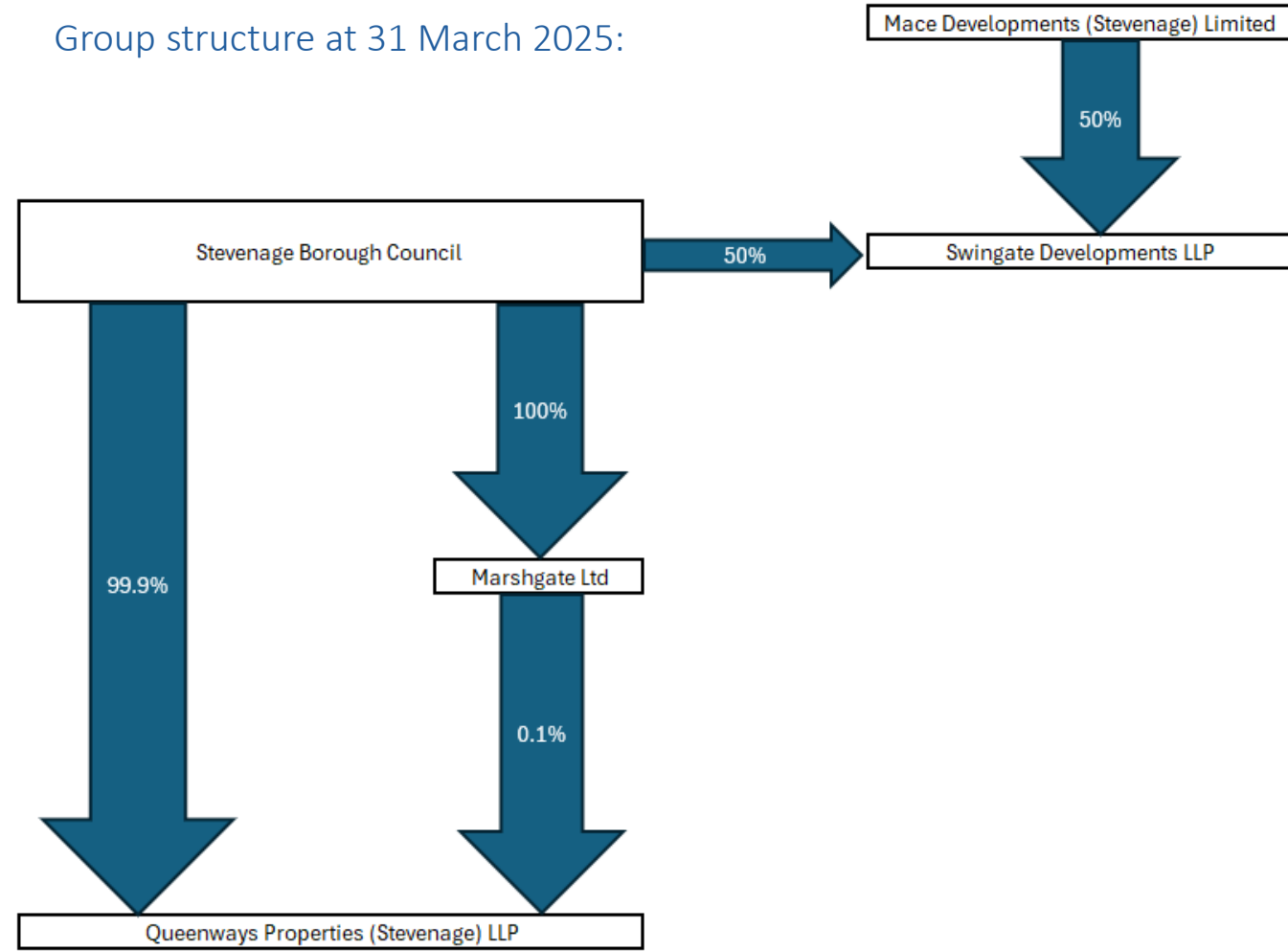
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As reported in the Council's MTFs, the Council needs to ensure that these companies have sufficient funds to remain operational to deliver the intended outcomes.

The Council has loaned Marshgate almost £12m to purchase dwellings for lease to the HRA and to finance building at a site called Courtlands, an old riding stables site, and developing properties for sale. A large proportion of this loan is repayable to the Council in 2025/26.

Marshgate's net assets total only £0.056m. The loans, totalling £11.93m, are offset by cash of £3.1m, housing stock valued at £7.6m and other debtors totalling £1.4m. The majority of the company's assets are not liquid and, therefore, its ability to pay the loan on time depends on the completion and sale of housing assets. There is, therefore, an element of risk over this position. The 'expected credit loss' related to potential impairment of the loan has not been factored into the Council's accounts. However, the Council expects the property sales to complete in 2025/26 and for the loan to be repaid in full.

Group structure at 31 March 2025:



Value for money: financial sustainability

Queensway LLP, which houses the income strip (considered in further detail in the next section), has a negative balance sheet with net liability of £4.9m following annual losses in each year since the partnership's inception. The auditors of the LLP, Moore NHS Audit Limited, have issued an unqualified opinion and raised no concerns over the going concern of the company. The accounts do not state whether or not a guarantee has been received from the Council over the LLP's financial position or to secure its going concern although we understand the Council has provided such a guarantee over the LLP's losses.

Based on accounting requirements under IFRS 9, organisations are required to assess the expected credit loss on financial assets, including lease receivables. The Council's 2024/25 accounts include a long term debtor, payable by Queensway LLP, for £21.623m. The expected credit loss of this financial asset should be considered, particularly in light of the £4.9m negative balance sheet. Ultimately, the responsibility for meeting any losses sits with the Council. The subsidiary's ability to pay this is not certain based on their audited reported financial positions. We reported last year that it is important that the Council undertakes an expected credit loss assessment in line with International Financial Reporting Standard 9 (IFRS9) and requirements within the CIPFA Code of Practice on local authority accounting, to assess whether this debtor should be impaired. We understand the Council will be undertaking such an assessment for the 2025/26 financial statements.

In total, the Council's accounts circa £34m of debtors across both companies, with £12m due from Marshgate expected to be repaid in 2025/26, subject to the company successfully selling their developed properties. The Council should ensure the financial risks related to both companies are fully considered and reflected in the financial statements of the Council, as the ultimate beneficial owner, ensuring any expected credit loss which may require recognition is included within the Council's annual financial position and any potential liabilities arising from the guarantee provided to Queensway LLP are also reflected in the Council's balance sheet.



Value for money: financial sustainability

Summary

We have not identified any significant weaknesses in the in the arrangements in place to support financial sustainability.

The Council has a good understanding of its financial position and the risks inherent in the forward-looking MTFS. 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 has arrangements in place to identify the significant financial pressures that are relevant to its short and medium-term plans and builds these into the MTFS. It plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities. There are indicators of financial strain: the subsidiary entities owned by the Council have limited financial resilience which may impact on the Council's financial position, and the income strip is significantly underperforming compared to its business case assumptions. 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 identified any significant weaknesses in the arrangements in place to support financial sustainability.

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 longer-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 Hertfordshire 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.

We have not identified any new recommendations for 2024/25 but comment later in the report the progress against the recommendations raised in our previous report. Given the small time frame between reports there was not an expectation that these recommendations would have been completed in time for this report to be issued and, as such, we will consider progress further in our 2025/26 report.



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.

Internal Audit

Internal Audit Services (SIAS) and Shared Anti-Fraud Service (SAFS) are provided as part of a shared service arrangement which is hosted by Hertfordshire County Council. In 2024/25, the assurance opinion on internal control was as follows: *"Reasonable Assurance - there is a generally 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"*.

This is the second highest level of assurance which can be achieved and is consistent with the prior year. Internal Audit regularly report to the Audit Committee. During 2024/25, 55% of reports completed were given "substantial" assurance and 22% were given "reasonable" assurance. There was one "limited" assurance report and one "unqualified" report which related to a grant certification. The internal audit recommendations made during 2024/25 were mainly "low/advisory" with only one recommendation being "high" priority. This is an improvement from the prior year. No recommendations were noted as "critical" in either year.

Counter Fraud

The Council have an Anti Fraud and Corruption Strategy in place which is published on their website. Although this is dated 2021 this is the latest policy in place at the Council. This sets out the Council's strategy to fraud. It includes responsibilities of the Council, including employees, partners and supplies. It also includes details of examples of types of fraud and ways in which fraud can be reported.

The Council use Shared Anti-Fraud Service (SAFS) which the Council is a partner of with Hertfordshire County Council. During 2024/25, the Council had an Anti Fraud Plan in place for which was approved by the Audit Committee.

Value for money: governance

Audit Committee

The Audit Committee met seven times in 2024/25 and has met twice so far in 2025/26. CIPFA guidance sets out that audit committees should meet at least four times a year, which the Council is compliant with. Meetings are informed and well-chaired and attendance from officers, including the Chief Finance Officer, is appropriate. From our attendance we can see that challenge at these meetings is effective and informed.

Policies

The Council has published a number of policies on its website under the “Financial Management” section. These include; Treasury Management Strategy, Risk Management Policy and Whistleblowing Policy. We noted that the Whistleblowing policy was dated 2022 and the Treasury Management Strategy was 2019/20. The Council should ensure that policies published on their website are up to date.

Code of conduct

The Council’s website outlines the arrangements for making a complaint where a member of the Council has failed to comply with the Code of Conduct and sets out how the Council will deal with such allegations. Complaints about Members and allegations that a Member has breached the Code of Conduct would be dealt with by the Standards Committee and the Monitoring Officer. The Council has a Standards Committee to promote and maintain high standards of conduct by Members of the Council and deal with any allegations that a member is in breach of the Council’s Code of Conduct and to consider changes to the Code as required.

Monitoring of performance

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.

Value for money: governance

Monitoring Officer

The Council's Monitoring Officer holds overall responsibility for ensuring that the Council acts lawfully and has a statutory duty to report any legal non-compliance. Procedures for report preparation are in place to ensure legal compliance is considered. Individual service managers bear the operational responsibility for legal compliance and staff training.

As part of our work, we met with the Monitoring Officer who has been in post since January 2025. The Monitoring Officer is responsible for dealing with complaints of member misconduct. The website sets out the process in which a complaint can be made. Through meeting with the Monitoring Officer we confirmed that no significant complaints were made in 2024/25 and upheld. These are reported to Standards Committee to confirm any remedial action.

Procurement

The Council adopted a new Cooperative Procurement Strategy 2025-28 which was approved by Cabinet in March 2025. The focus of the strategy is around five principal foundations including; Community Wealth Building, Sustainability, Social Value and Ethical Procurement, Commercial and Insourcing and Pro-active Procurement. Each foundation will be a consideration that need to underpin the procurement process and will be embedded in the way the Council procures goods, works and services.

The new plan takes into account the new Procurement Act 2023 regulations and also incorporates the Council's Making Stevenage Better Corporate Plan for 2024-2027. The Procurement Act 2023 sets out to improve transparency and simplifies the process to encourage more small/medium enterprises in bidding for contracts. The Council welcome these changes as set out in their procurement strategy.

Declarations of interest

Member's responsibilities for declaring their interests are set out as part of their induction. There is also a section on the Council's website which includes Members Code of Conduct as well as forms which are required to be completed, including Declarations of Interest. No concerns were raised through discussions with the Monitoring Officer regarding returning declarations of interest. We also note that conflicts of interest are a standing item on the agenda for committee meetings.

The employee code of conduct is also published on the website which sets out behaviours expected of staff employed by the Council.



Value for money: governance

Governance of Queensway 'income strip'

We have previously reported that the ownership structure of the income strip arrangement adds complexity which could inadvertently obscure transparency and make governance more challenging. The subsidiary entity is a further step removed from Members than most Council activity and, therefore, the significance of risks involved may not be understood in the same way.

In our previous report we recommended the Council should ensure that arrangements for the reporting and oversight of performance of the subsidiary entities and of the income strip to Members is strengthened to ensure clear accountability for financial performance and decision making. It is best practice that an annual business plan for each subsidiary entity is presented to the relevant Council committee and a report at the end of each financial year to highlight performance against the business plan to give shareholders (the Council) assurance over its financial and operational performance, enhance transparency over the risks inherent in the income strip entity and enable Members to make fully informed decisions over the risks faced.

Page 39 Management has prepared a comprehensive report covering all subsidiary companies, which was reported to Cabinet in October 2025 and will be reported to the Audit Committee in November 2025. This report provides comprehensive detail over the risks inherent within each subsidiary and relating to their activities, performance against plan and consideration of performance against the business case, together with the mitigations management is pursuing, where appropriate.

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 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.



Value for money: governance

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 longer-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 Stevenage 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.

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.

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.*

Capital monitoring

The Council reported the quarter 4 2024/25 capital outturn to Cabinet in July 2025. This set out an overall budget for the General Fund of £21m and for the Housing Revenue Account (HRA) of £31m. At 31 March 2025, the HRA schemes overspent by £0.4m which has been re-profiled into 2025/26, reducing the 2025/26 budget. The General Fund underdelivered by £8.3m, of which £8m has been reprofiled into 2025/26 and £63k into 2026/27. The reprofiling has been detailed into specific areas per the quarter 4 outturn report reported to Cabinet and relating to the forecast timing of expenditure. It is not unusual to need to re-phase some capital work, especially when there are elements outside of the Council's control, such as weather, which can impact on their ability to deliver each phase of a capital project.

Of the £8.3m, £3m relates to the Towns Fund programme, which is covered below. Other variances relate to a delay in the delivery of recycling and food collection vehicles due to an increase in lead time (£1.9m underspend). There is also an underspend in 2024/25 of £1.4m which relates to the Swingate joint venture, although development work is underway for this as reported in July 2025.

Towns Fund

The Council was successful in its bid to secure £37.5m from the government in 2021. This is as a result of a £3.6bn initiative launched in September 2019 by MHCLG known as Towns Fund, with the aim to support towns in their development and regeneration to promote local economic growth.

As part of this, the Council set up the Stevenage Development Board to oversee the development of this fund. The Board's role is to provide strategic leadership and to set out a Town Investment Plan with a clear vision, strategy and delivery proposals in place which reflect the ambitions of local people. The Board consists of key stakeholders from public sector organisations, private businesses and not-for-profit organisations to ensure a diverse range of views are represented. It is chaired by an independent member and includes the Leader of the Council, Leader of Hertfordshire County Council and various other members representing local businesses.

Value for money: improving economy, efficiency and effectiveness

The Board met four times in 2024/25 and discusses the progress of the projects. Cabinet receives updates of the project at least once a year. The programme consists of nine different projects. The Council has two roles within this programme; firstly, the delivery of some projects directly through the regeneration team and, secondly, acting as Accountable Body to enable projects to utilise Towns Fund monies by other delivery mechanisms and monitor and evaluate the success of the overall Towns Fund programme. As reported in the quarter 4 monitoring report for capital which was taken to the July 2025 Cabinet meeting, the spend profile for 2024/25 was an ambitious target which relied on elements of the projects aligning as many are interlinked in terms of delivery. The team are working with internal and external partners to ensure delivery continues at pace throughout 2025/26 to reach the spend target set.

As at the year end, three projects have been completed. These are included in the table below along with the spend to date of the other projects and the percentage completion they were at on 31 March 2025.

	Total planned project	Spend to 31 March 2025	Status	% completed
Gunnels Wood Road Infrastructure	£1m	£1m	Completed	100%
Marshgate Biotech	£1.75m	£1.75m	Completed	100%
Station Gateway Enabling Works	£6.5m	£6.5m	Completed	100%
Cycling & Pedestrian Connectivity	£3.5m	£1.769m	£1.730m remaining	51%
Town Centre Diversification	£3.75m	£1.4m	£2.349m remaining	37%
Stevenage Enterprise Centre	£4m	£2.147m	£1.852m remaining	54%
Stevenage Innovation & Technology Centre	£5m	£0.278m	£4.721m remaining	6%
Sports & Leisure Hub	£10m	£1.667m	£8.332m remaining	17%
New Town Museum	£2m	£0.569m	£1.430m remaining	28%
Total	£37.5m	£17.08m	£20.42m	46%

Following the year end it was announced that the Towns Fund would be consolidated into the Local Regeneration Fund with an expectation that all monies would be spent by 31 March 2028 to align with Local Government Reorganisation. Whilst this is an ambitious programme for the Council to deliver, it is monitoring this and has until 31 March 2028 to ensure completion. The Council has profiled the remaining spend over 2025/26 and 2026/27.



Value for money: improving economy, efficiency and effectiveness

Corporate plan

Stevenage Borough Council published their Corporate Plan “Making Stevenage Even Better 2024 -2027”. This sets out five key priorities and three themes, as well as setting out the Council values. The five priorities are:

1. Transforming our town
2. More social, affordable and good quality homes
3. Thriving neighbourhoods
4. Tackling climate change
5. Balancing the budget

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There is a section within the plan setting out the governance and monitoring arrangements in place for the plan, which is transparent for the public to understand how the Council is holding itself accountable to its plan.

This sets out each of the five strategic priorities and themes and that they will be presented as a Plan on a Page (Poap). This notes that each Poap is underpinned by Key Performance Indicators (KPIs) and Milestones that the Council will use to monitor and track performance. The plan notes that the first set of Poap documents covering the period 2024-25 will be published in July 2024.

It states that *“these will be reviewed annually, so that we can monitor delivery and make timely changes where required. This will be accompanied by the Council’s Annual Report which sets out the Council’s achievements for the previous year. To ensure transparency and to keep residents up to date on progress, the KPIs and Milestones will be reported to the Council’s Executive (Cabinet) and published on our website at the end of every financial quarter.”*

It is not clear on the Council’s website where these Poap documents are. However, there is a section on the Council’s website under “delivering for Stevenage” which set out the Cabinet papers for the financial years where the “Making Stevenage Event Better” priorities are reported each quarter as set out in the plan. The July 2025 meeting includes an update on the 2024/25 progress, with particular focus on the final quarter of 2024/25. This reports key performance indicators (KPIs), progress targets and who the responsible portfolio holder is for each.



Value for money: improving economy, efficiency and effectiveness

Partnership working

The Council actively collaborates with various partners, including private investors, to drive major commercial and residential developments. Notably, this includes partnerships to facilitate the regeneration of Queensway and Marshgate using wholly owned Council subsidiary entities.

The Council also partners with other local authorities to deliver a number of services. These include Revenues and Benefits (hosted by East Hertfordshire District Council), ICT (partnership with EHDC but hosted by Stevenage Borough Council), Internal Audit and Shared Anti-Fraud Service (hosted by Hertfordshire County Council (HCC), Legal Services (hosted by HCC) and procurement (with EHDC and Hertsmere).

As part of our work we reviewed the Overview and Scrutiny Committee paper for October 2024 which included a report titled “Review of ICT” which set out key updates including a new structure organigram as well as key information against performance indicators from the Joint ICT Committee.

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In addition to the above Stevenage Borough Council created “Stevenage Works” which launched in 2019 and works in partnership with North Herts College and the Hertfordshire Job Centre Plus (JCP) to provide an efficient approach to delivering social value. It is a job and training hub offering free recruitment service to local residents. It provides a single point of contact for enquiries and engagement with the community and employers. This is carried out by holding regular sessions to consolidate shared learning with stakeholders.

Risk management

The Risk Management Policy was updated just after the 2024/25 year end, in July 2025 and published on the website. This sets out that risk management is an integral part of the Council’s corporate governance arrangements and has been built into the management processes as part of the Council’s overall framework to deliver continuous improvement. All Members and officers have a responsibility and a role to play in managing risk. It also includes the definitions of different types of risk including; strategic, operational and project risks. The Council maintains strategic and operational risk registers centrally, while programme / project risk registers are developed and held at a local level.

The Strategic Risk Register is reported and discussed at Audit Committee. We obtained the March 2025 Strategic Risk Register which set out a number of risks including their pre-mitigated score, mitigations in place and post mitigated score as well as the direction of travel each risk has seen in recent years. This is considered to be appropriate.

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

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Value for money: follow up of prior recommendations

The recommendations we made in previous years 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 previously reported	Criteria	Recommendation previously made	Auditor update 2024/25
HRA leasing assets from general fund The substance of the lease arrangement is that the HRA is paying, annually, full market value lease rates to the general fund for properties owned, ultimately, by the general fund. Given the unusual nature of this arrangement, and given the tight restrictions over the use of HRA monies and their appropriation by the general fund, there is a risk the arrangement may breach the ring-fence requirements in place over the use of HRA monies	Financial sustainability	1. Regarding the HRA leasing assets from the Council’s wholly owned subsidiary company at full market value, management should seek a specialist legal view over the arrangement to ensure the actions and transactions are intra vires and ensure officers and the Council are adequately protected against any potential future challenge over the arrangement.	Management has commissioned an external specialist report in respect of this. The report is expected to be received in November 2025.
Subsidiary financial positions Both subsidiary entities have uncertain financial positions: Marshgate Ltd owes the Council £11.9m in loans but has a net asset position of only £0.056m with only £3m held in cash; and Queensway LLP has a negative balance sheet of £4.9m and ongoing annual losses, but owes the Council almost £22m in long term lease payments which are recognised as a long term debtor in the Council’s accounts	Financial sustainability	2. The Council should undertake an expected credit loss assessment in line with International Financial Reporting Standard 9 (IFRS9) and the requirements of the CIPFA Code of Practice on local authority accounting, to assess whether the £34m debtors due from the subsidiary company and LLP should be impaired.	Management has commissioned an external specialist report to consider the accounting treatment. The accounting has not been considered as part of the 2024/25 accounts but will be considered, following receipt of the report, for 2025/26.



Value for money: follow up of prior recommendations

Observation previously reported	Criteria	Recommendation previously made	Auditor update 2024/25
Expected credit loss At present, the Council has not included an expected credit loss impairment consideration in the financial statements.	Financial sustainability	3. The Council should ensure the financial risks related to both subsidiary entities are fully considered and reflected in the financial statements of the Council, as the ultimate beneficial owner, ensuring any expected credit loss which may require recognition is included within the Council's annual financial position.	Management has commissioned an external specialist report to consider the accounting treatment. The accounting has not been considered as part of the 2024/25 accounts but will be considered, following receipt of the report, for 2025/26.
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 residual general fund CFR is 1.4%. This suggests a higher risk that the MRP may be insufficient to ensure long-term financial resilience.	Financial sustainability	4. Management should review the minimum revenue provision (MRP) in future years to ensure the annual MRP adjustment is adequate and prudent and ensure longer term financial risks are contained.	MRP is currently reduced following the MRP 'overpayment' identified in earlier years. In 2025/26, once this has been 'repaid', the MRP is due to rise in excess of 2% Recommendation closed

Value for money: follow up of prior recommendations

Observation previously reported	Criteria	Recommendation previously made	Auditor update 2024/25
Income strip mitigation strategy The Queensway income strip scheme is performing significantly below the levels anticipated in the original business case and making annual losses. The economic risk sits fully with the Council and the Council's costs are contractually required to increase annually by up to 3.5% whilst income levels are not currently sufficient to cover current or future costs.	Financial sustainability	5. Management should draw up and progress formal mitigation strategies to prevent further ongoing losses from the Queensway income strip scheme and, if this is not possible, consider options available to withdraw from, buy out or otherwise exit the scheme in a way which minimises losses to the taxpayer.	Management has commissioned an external specialist report to consider options for the income strip, including potential mitigation strategies. Management has also reported to Members with mitigation options currently being considered.
Income strip business case update The scheme is performing significantly below expectations as set out in the business case and is due to continue for a further 30 years.	Financial sustainability	6. Management should consider the performance of the Queensway income strip scheme by updating the business case with known current income and costs and updated projections to assess whether the scheme remains one in which the Council should remain involved longer-term.	Management has commissioned an external specialist report to consider options for the income strip, including potential mitigation strategies. Management has also reported to Members with mitigation options currently being considered.

Value for money: follow up of prior recommendations

Observation previously reported	Criteria	Recommendation previously made	Auditor update 2024/25
Income strip – consideration of position The underperformance of the scheme compared to business plan projections means the scheme may not, in its current form, pass the business case considerations were the same considerations made over what are now the known actuals. As such, the Council will need to have a clear view over the parameters when the scheme becomes onerous.	Financial sustainability	7. The Council should identify the point at which the Queensway income strip scheme performance renders it onerous and make plans for what actions should be taken in this eventuality	Management has commissioned an external specialist report to consider options for the income strip, including potential mitigation strategies. Management has also reported to Members with mitigation options currently being considered.
Queensway LLP financial position The subsidiary LLP is a separate legal entity with its own Companies Act legal obligations. It is wholly owned by the Council but has a negative balance sheet and makes annual losses. As the beneficial owner, the Council may be impacted if ongoing underperformance within the LLP means its financial obligations cannot be met.	Financial sustainability	8. The Council should ensure that the Queensway LLP subsidiary has a clear plan in place to improve the financial position of the subsidiary company and that the assumptions contained within the business plan are reviewed and updated on a regular basis.	Management has commissioned an external specialist report to consider options for the income strip, including potential mitigation strategies. Management has also reported to Members with mitigation options currently being considered. This includes considerations for options to improve the financial performance.
IFRS16 and income strip accounting 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	9. The Council should consider the impact of IFRS16 on the Queensway income strip scheme, as this standard comes into force from the 2024/25 year of account for the Council.	Management has commissioned an external specialist report to consider the accounting treatment. The accounting has not been considered as part of the 2024/25 accounts but will be considered, following receipt of the report, for 2025/26.

Value for money: follow up of prior recommendations

Observation previously reported	Criteria	Recommendation previously made	Auditor update 2024/25
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 3 years, auditors have not been able to express a view on the appropriateness of the current accounting treatment in this respect.	Financial sustainability	10. The Council should consider whether the Queensway 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.	Management has commissioned an external specialist report to consider the accounting treatment. The accounting has not been considered as part of the 2024/25 accounts but will be considered, following receipt of the report, for 2025/26. The Council expects the report to confirm there is no embedded derivative. This will be subject to audit in 2025/26.
Effective interest rate 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 3 years, auditors have not been able to express a view on the appropriateness of the current accounting treatment in this respect	Financial sustainability	11. 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. This is an "other" recommendation.	Management has commissioned an external specialist report to consider the accounting treatment. The accounting has not been considered as part of the 2024/25 accounts but will be considered, following receipt of the report, for 2025/26.

Value for money: follow up of prior recommendations

Observation previously reported	Criteria	Recommendation previously made	Auditor update 2024/25
Reporting to members There is no suggestion management is not being transparent with Members about the risks associated. However, given the risks, both current and longer term, in the performance of the income strip scheme and their potential impact on the Council's financial position, it is important that the fact this scheme sits within a subsidiary company does not inadvertently mean Members are less sighted on the scale and nature of the risks present.	Governance	12. The Council should ensure that arrangements for the reporting and oversight of performance of the subsidiary entities and of the income strip to Members is strengthened to ensure clear accountability for financial performance and decision making. In particular, the medium and longer term risks associated with the Queensway income strip scheme should be reported in full, together with the proposed actions to address these risks and secure longer-term financial sustainability.	Management has produced a comprehensive report for Members on all subsidiary companies, their activities, risks and performance. This will be reported to Members in November 2025. Recommendation closed



Value for money: follow up of prior recommendations

The recommendations below were raised in the 2022/23 audit and were still in the process of being implemented when we reported an update in our 2023/24 AAR.

Recommendation	Criteria	Year first raised	Update 2024/25
The Internal Audit report on cyber security provided limited assurance and recommended that ‘the Council review its cyber security functions to meet an adequate level of security to protect itself from any cyber security threats. Thereafter, the Council should seek appropriate accreditation to provide assurance for their cyber security. When the Council has completed its rollout of Windows 10, it should renew its PSN certification’. This risk is also noted in the strategic risk register, along with mitigations in place to reduce the overall risk rating. As this is an area which can have a significant impact across all areas of the Council’s services, management need to ensure that they respond to the Internal Audit recommendations as a priority.	Governance	2022/23	<i>“The Council has successfully completed the rollout of Windows 10 and participated in the National Cyber Security Centre (NCSC) Cyber Assessment Framework (CAF) pilot for local government. The CAF pilot also examined whether it would replace PSN certification; however, it has been determined that the CAF will not replace PSN certification. The Council is currently finalising this process and will then focus on renewing our Public Services Network (PSN) certification.”</i>
A limited assurance report was also received in relation to the Internal Audit Landlord Health and Safety Follow Up. As the provision of housing is a key service provided by the Council responding to the recommendations in this report needs to be given a high priority.	Governance	2022/23	<i>“Work is currently in progress to address the recommendation made by the predecessor auditor. The Council recently underwent the Regular of Social Housing inspection and was awarded a C2 grade. The highest achievable grade is C1, with C4 being the lowest. Attaining this grade underscores the Council’s dedication to their corporate plan priority of providing more social, affordable, and high-quality homes”</i>





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