



East Hertfordshire District Council

Value for Money Interim Report

Years ended 31 March 2022 and 31 March 2023

August 2024

213 August 2024

East Hertfordshire
District Council
Council offices,
1 The Causeway,
Bishop's Stortford
CM23 2EN

Dear Audit and Governance Committee Members

2021/22 and 2022/23 Value for Money Report

We are pleased to attach our interim commentary on the Value for Money (VFM) arrangements for East Hertfordshire District Council. This commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit years 2021/22 and 2022/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. The National Audit Office (NAO) issued a consultation on 8 February 2024 seeking views on changes to the Code of Audit Practice (the Code) to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements. The consultation proposes to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. At this stage, we are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code.

This report is intended solely for the information and use of the Audit and Governance Committee and management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 25 September 2024

Yours faithfully

Debbie Hanson

Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/auditquality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to Audit Committee and management of East Hertsfordshire District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of East Hertsfordshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of East Hertsfordshire District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



BOARDROOM

01 Executive Summary



Executive Summary

Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditors provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this interim commentary is to explain the work we have undertaken during the period 01 April 2021 to 31 March 2023 and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for audit years 2021/22 and 2022/23. The NAO has confirmed that where VFM reporting is outstanding for more than one year, the auditor can issue one report covering all years.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation states that where auditors have begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closes), they may still report on it in accordance with Schedule 4. We are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this interim report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified;
- Findings to date from our planned procedures; and
- Summary of arrangements over the period covered by this report (Appendix A).

We will summarise our final view of the value for money arrangements as part of the Auditor's Annual Report once the audit reports have been issued for 2021/22 and 2022/23.

Executive Summary (continued)

Risks of Significant Weakness

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

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

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements.

We identified risks of significant weaknesses in related to governance and improving economy, efficiency and effectiveness arrangements as part of our risk assessment procedures. We set out our planned response to address these risks in the table below.

Description of risk identified	Years	Work planned to address the risk of significant weakness
Governance: Non preparation and publication of the financial statements for 2021/22 and 2022/23 and failure to publish the 2021/22 Annual Governance Statement	2021/22 2022/23	Discussions with management to identify the reasons for, and actions taken to address, the non-compliance
Improving economy, efficiency and effectiveness: Delays and/or significant cost over runs on major projects	2021/22 2022/23	Discussions with management in relation to Old River Lane redevelopment project Review of minutes of meetings of Old River Lane Delivery Board Review of project delivery models, budgets, business case, supplementary planning document, Section 123 report and Montagu Evans Viability Report Review of the Council’s MRP policy and calculation

Executive Summary (continued)

Reporting

Our interim commentary for 2021/22 and 2022/23 is set out over pages 10 to 17. The interim commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2021/22 and 2022/23. We include within the VFM commentary below the associated recommendations we have agreed with the Council.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Auditor’s Annual Report and have been updated for 2021/22 and 2022/23.

In accordance with the NAO’s 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the Council’s arrangements.

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	Non preparation and publication of the financial statements for 2021/22 and 2022/23 and the 2021/22 Annual Governance Statement	Yes, non-compliance with the Accounts and Audit Regulations 2015 in a number of areas.
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	Delays and/or significant cost over runs on major projects	We are still considering the impact of these findings on our value for money reporting and will provide an update to the Audit and Governance Committee once our procedures have been finalised. Based on the work completed to date we have not identified any significant weaknesses.



Executive Summary (continued)

Independence

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

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

EY Transparency Report 2023

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2023:

[EY UK 2023 Transparency Report | EY UK](#)



02

Value for Money Commentary

Value for Money Commentary

Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services for 2021/22 and 2022/23

No significant weakness identified

The Council is required to have arrangements in place to ensure proper resource management and the primary responsibility for these arrangements, and reporting on the design and operation of these arrangements via the Annual Governance Statement, rests with management. In accordance with the National Audit Office (NAO)'s Code the focus of our work should be on the arrangements that the Authority is expected to have in place during the years ended 31 March 2022 and 2023.

Our risk assessment did not identify any risk of significant weakness in arrangements to secure financial sustainability, but we did identify a number of areas for improvement which are noted in this report.

Budget setting and monitoring

The Council has adhered to its governance processes for setting a balanced budget and Medium Term Financial Plan (MTFP). The budget and MTFP are underpinned by assumptions that we deemed reasonable and supported. The Council's budget is monitored on a monthly basis by senior management and reported quarterly to the Executive. The Council's revenue budget was put under pressure in 2021/22 due to losses in income and increased costs.

The 2021/22 and 2022/23 revenue budgets were approved by Council in March 2021 and 2022 respectively, and a balanced budget was set each year. The outturn and pressures identified in the previous year are considered as part of the budget process to ensure that these are adequately addressed in the next years' budget.

The 2021/22 revenue budget and MTFP was based on the following assumptions;

- salary inflation of 2%
- 2.5% increase to fees and charges
- additional budget savings/efficiencies required over the next four years totalling £8.89 million to 2024/25, with use of reserves of £5.47 million over the period to bridge the budget gap.
- increase in the provision for bad debts by £1.034 million has been forecast as well as an increase in the appeals provision of £3.4 million.

The 2022/23 budget and Medium-Term Financial Plan (MTFP) was based on the following assumptions:

- contract inflation up to 4%.
- no inflation in other goods and services budgets.
- provision for the national pay award (up to 3%).

The 2021/22 budget and MTFP included a savings target of £2.39 million, to be achieved from new savings proposals, the transformation programme and infrastructure investment. For 2021/22, the Council reported an overall underspend position of £91k. In 2022/23, the final general fund revenue outturn reported in September 2023 was a £195k overspend, which was funded from the General Fund Reserve. This compared to the forecast outturn as of 30 June 2022 of an overspend of £229k.

Value for Money Commentary

Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services for 2021/22 and 2022/23

No significant weakness identified

Medium term financial plans and savings

The Council faces real-term reductions in government grants and increases in costs due to inflation and other pressures. These challenges created a budget shortfall of £1.179 million for 2022/23 and an additional £3.5 million for 2023/24.

For 2022/23, the following savings proposals were identified;

- Reduction in payment to the Hertfordshire Emergency Planning / Resilience Partnership from £26k per year to £16k to reflect the reduction in hours devoted by the Partnership to East Herts
- Removal of £21k from the 2022/23 budget relating to the community public transport schemes
- Increase the charge from single people in bed and breakfast from £110.40 per week to £129.33
- Reduction of 25% in the combined revenue and capital grants budget of £31k
- Introduce standard car park tariff charges on Sundays across Council managed car parks
- To reduce the number of audit days purchased from SIAS whilst still ensuring appropriate assurance is received
- Gilston Planning Costs Pressure reduction from £247,000 to £207,000

For 2023/24, the Council approved a net revenue budget of £12,113 million in March 2023 with a forecast net revenue overspend of £220k. Assumptions built into the 2023/24 revenue budget and MTFP were:

- a council tax increase of 2.99%
- pay inflation originally set at 2% for 2023/24 was increased to 4% in 2023/24 but remaining at 2% in future years.
- contract inflation was set at 4% in 2022/23 and 2.5% thereafter.
- net income stream for the theatre has been moved back to 2025/26 due to delays in Hertford Theatre
- the Elizabeth Road redevelopment will be progressed only as far as planning permission
- capital receipts will be used to replace borrowing thus reducing revenue costs

The 2023/24 MTFP projections were reported to Council in March 2023 and required the Council to make savings of at least £6.9 million in the next four years. Proposals to close the budget gap for 2023/24 amounted to £866k compared to a target of £822k.

The savings targets over the next four years are challenging and a recent Finance Peer Challenge report based on a desktop review undertaken in February to March 2024 noted a number of areas for improvement in relation to savings. These included, the need to incorporate comprehensive risk assessments related to the proposed savings measures, including detailing the likelihood and potential impact of not achieving the targeted savings. It also found that the budget report would benefit from clear explanations as to how the savings identified impact on future years and ensuring that all savings figures are fully reconciled.

Value for Money Commentary

Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services for 2021/22 and 2022/23

No significant weakness identified

The annual savings requirements to deliver a balanced budget in the March 2023 MTFP are set out below and the cumulative impact of these is a savings requirement of £7.49 million by 2027/28:

- 2023/24: £0,822 million
- 2024/25: £2.170 million
- 2025/26: £2.146million
- 2026/27: £1.758 million
- 2027/28: £0.594 million

Savings requirements as per the 2024/25 MTFP are:

- 2024/25: Gross savings requirement of £1.186 million
- 2025/26: Gross savings requirement of £5.606 million.
- 2026/27: Gross savings requirement of £5.606 million.
- 2027/28: Gross savings requirement of £6.132 million.

Levels of reserves

The Council has earmarked reserves which can be used to balance the budget in the medium term. Earmarked reserves at 31 March 2022 were £21.3 million and the general fund balance of £3.8 million was above the min recommended level of £2.2 million set by the Section 151 officer. The level of earmarked reserves had reduced to £18.7 million at 31 March 2023.

The Finance Peer Challenge report referred to above, also noted that the useable reserves were comparatively low, and recommended that the Council should consider financial risks in determining a minimum level of reserves to be maintained. Additionally, it recommends publishing an explicit statement on the Council's usable reserves position within the budget report. The most recent published accounts cover the period up to 2021/22 and show usable reserves of £21.3 million as of March 2022. However, after discounting specific reserves, the Peer Review noted that the sum of usable earmarked reserves is only £4.7 million. We also noted as part of our work that it was difficult to establish the projected level of useable reserves through review of the Council's various budgeting reports. We did however note that the Budget Report in October 2024, included projections of reserves to 2027/28, which reported a projected general fund balance of £3.8 million, a general reserve of £1 million and earmarked reserves of £14.7 million.

Value for Money Commentary

Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services for 2021/22 and 2022/23

No significant weakness identified

Minium Revenue Provision (MRP)

We note that the Council moved to a position of having a positive Capital Financing Requirement in 2020/21, having previously been debt free. The Council's reported MRP policy is to *'repay internal borrowing incurred on capital expenditure between 2011/12 and 2021/22 from the set aside balance in order that no MRP is required to be set aside. For external borrowing from 2021/22 and future years the Council will assess MRP in accordance with the main recommendations contained within the guidance issued by the Secretary of State'*. It is unclear from our reading of the Council's Policy whether the Council has fully considered the impact of not setting aside MRP in relation to capital spend between 2011/12 and 2021/22 in terms of any impact on its future financial resilience. As we are issuing disclaimer opinions on the 2021/22 and 2022/23 financial statements, we have not undertaken any audit work in relation to the MRP policy and calculation, but recommend that the Council undertakes a review of this area.

Overall conclusion

Despite the pressures noted we have not identified any significant weakness in the financial management arrangements for 2021/22 and 2022/23. The Council has mitigating actions in place which have enabled a balanced budget to be set in each year and for reserves to be maintained above the minimum recommended level. The scale of savings required to continue to set a balanced budget and maintain reserves at an appropriate level does however significantly increase in future years.

Our work and that of the Finance Peer Challenge has however noted a number of areas for improvement in financial management and reporting.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 and other relevant years to enable it to plan and manage its resources to ensure that it can continue to deliver its services

Recommendations:

1. Officers need to ensure robust savings plans are put in place and delivered to ensure spend is contained within budget and planned savings are delivered on a timely basis.
2. The Council should ensure that it mitigates the further use of reserve balances to support the revenue budget in the medium term, by taking steps to ensure that both in-year overspends are minimised and future savings gaps are identified early with schemes put in place, without compromising front line service delivery.
3. The Council should ensure it takes action to address the findings and recommendations from the Finance Peer Challenge as a matter of urgency.
4. The Council should undertake a review of its MRP policy and calculation to ensure it is fully compliant with the statutory requirements and guidance and that sufficient set asides are being made.

Value for Money Commentary (continued)

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

Significant weakness identified for 2021/22 and 2022/23

The Council is required to have arrangements in place to ensure proper risk management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the audited body is expected to have in place during the years ended 31st March 2022 and 2023.

Financial statements

Our risk assessment identified a risk of significant weakness in arrangements in governance in relation to the Council's non-compliance with the Audit and Accounts regulations in relation to the failure to prepare and publish draft and audited accounts on a timely basis along with appropriate inspection notices.

Under the Accounts and Audit Regulations 2015, the Council is required to publish a set of draft accounts for a public inspection period of 30 working days, during which time any interested person may inspect the accounts and ask questions to the external auditor. For 2021/22, this public inspection period should start no later than the first working day of August (per a 2021 amendment to the regulations) and the accounts should also include an Annual Governance Statement.

The Council published their draft 2021/22 financial statements for audit on the 11 December 2023 and advertised and held an inspection period for members of the public. For 2021/22, the Council have therefore not complied with the requirements of the Accounts and Audit Regulations, as the inspection period did not start until 12 December 2023. We also noted the following:

- the accounts published for inspection did not include an Annual Governance Statement (AGS).
- the Statement of Responsibilities for the Statement of Account included in the 2021/22 Accounts was from the 2020/21 accounts and was dated 26/10/2020.
- the auditor's report included in the 2021/22 Accounts was the audit report for the 2019/20 accounts.

For 2022/23, the Council have again not complied with the requirements of the Accounts and Audit Regulations as they;

- did not prepare and publish the set of draft accounts.
- did not publish a notice stating that the Council has not been able to publish the statement of accounts and its reasons for this.

We also note that for 2023/24 the Council has again failed to produce a set of accounts and has not included the required notices on its website.

We have therefore concluded that appropriate arrangements for financial reporting were not in place during 2021/22 and 2022/23. As the statement of accounts are an important document and provide members of the public and other stakeholders with information regarding the Council's financial position, we have concluded that the continued failure to prepare and publish accounts represents a significant weakness in governance arrangement and will be modifying our audit report, to refer to this. We are also considering issuing a statutory recommendation in this regard as part of our formal reporting.

Value for Money Commentary (continued)

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

Significant weakness identified for 2021/22 and 2022/23

Other arrangements

The Council has an established risk management process including a Risk Management Strategy that is reviewed quarterly by the audit and governance committee. The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that decisions are efficient, transparent and accountable to local people. Areas of potential change are identified, and the Constitution is amended accordingly, which has been evidenced by the recent updating of its constitution on in January 2024.

The Shared Internal Audit Service's (SIAS) have given reasonable assurance for 2021/22 and 2022/23 over the adequacy and effectiveness of the Council's framework of governance, risk management and control. In 2021/22, ten projects all received substantial assurance opinions and contributed to the overall assurance opinion. There were also three projects with an opinion of 'not assessed', two "not complete" and one "limited" For 2022/23, there were two incomplete projects, one unqualified and one not assessed.

The 2022/23 AGS includes all the areas required by the Cipfa Code, including information relating to review of effectiveness and reports on the key governance areas where Internal Audit work has identified further improvements needed. These are:

- The Communications Strategy requires revision to reflect changes in technology, social media and the further decline of printed media and to separate consultation from communication.
- The Council would benefit from a separate Consultation Strategy which sets out how and when the Council will consult. This accords with the priorities of the new Joint Administration.
- Member Officer Protocol for working in a no overall control council. At the elections in May 2023, the Council moved to being under no overall control by a single political party. There is a need to set out expectations concerning information, briefings and policy development that more appropriately meet the needs of the political groups in a no overall control council.
- Contract Procedure Rules are in need of review and updating, particularly as they reflect the transition under Brexit and not the final position under the Procurement Bill, which is in its final stage before anticipated Royal Assent and amendments introduced under the Public Procurement (International Trade Agreements) (Amendment) Regulations 2023. This will be undertaken alongside the development of the Procurement Strategy to ensure that they are properly aligned.

Value for Money Commentary (continued)

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

Significant weakness identified for 2021/22 and 2022/23

Conclusion: Based on the work performed, we have identified a significant weakness in the arrangements in relation to the production and publication of the accounts that we will be reporting by exception in relation to the non-compliance with Audit and Accounts regulations 2015. We are also considering issuing a statutory recommendation in this regard as part of our formal reporting.

Recommendations:

- 1. The Council should take immediate action to strengthen the arrangements for the preparation and publication of its accounts and relevant associated notices in line with the requirements of the Accounts and Audit Regulations.*
- 2. The Council should ensure actions are taken to address weaknesses identified by Internal Audit, as reported in the AGS, on a timely basis in order for the Council to be assured regarding the adequacy of its governance arrangements.*

Value for Money Commentary (continued)

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

No significant weakness identified for 2021/22 and 2022/23 but work remains in progress

The Council is required to have arrangements in place to ensure economy, efficiency and effectiveness, and the responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement, rests with management. In accordance with the NAO's Code the focus of our work should be on the arrangements that the audited body is expected to have in place during the years ended 31st March 2022 and 2023.

Our risk assessment has identified a risk of significant weakness in arrangements in place to ensure economy, efficiency and effectiveness, as noted below. We are still concluding our work in relation to the reasons for the increased costs on the Hertford Theatre and the actions taken by the Council in response to this us to fully conclude in this area. At present, based on the work completed to date we have not identified a significant weakness in arrangements.

The five-year capital spending programme totals over £90 million. During 2021/22, the Council spent £31.5 million on capital projects, compared with a budget of £64.6 million. The underspend of £33 million was due to schemes not commencing or progressing in line with initial expectations and was carried forward into 2022/23. The capital programme was re-profiled as part of the budget report to Council in March 2022 and the majority of these underspends were captured in this re-profiling and a further £4.1 million was carried forward to the 2022/23 capital programme.

The capital programme included the regeneration of Old River Lane in Bishop's Stortford and the continued redevelopment of Hartham Leisure Centre. We have noted significant delays and/or cost overruns on these major projects which could indicate a weakness in procurement arrangements or contract management and could have a negative impact on the Council's financial position. In response to this risk, we have considered these projects in more detail as noted below.

1. Hertford Theatre Development:

The initial contract was awarded in March 2022 for £18.881 million. The project has encountered a series of budgetary challenges due to rising inflation and unprecedented increase in costs of labour and materials. This has resulted in an increased budget for the development, which stood at £24.105 million at March 2022. As of that date, the cost verification has indicated that the project is expected to cost £30.200 million to complete in its entirety and at the current date the forecast outturn is a projected overspend of £2.645 million, which officers are working to reduce. The Council has engaged external advisors to undertake an assessment of costs and advise the Council on an appropriate guaranteed maximum price to be agreed with the contractor following the continued increases.

2. Old River Lane Regeneration and Arts Centre:

The Council purchased the Old River Lane site in 2015, after a private sector scheme failed to be delivered. The site offers a prime development opportunity in the heart of Bishop's Stortford town centre. The Council selected Cityheart as their development partner via an OJEU compliant Competitive Dialogue process in 2018. The aims were to create an arts and entertainment centre, residential, retail and leisure uses to drive transformational change in Bishop's Stortford.

Since the project was initially started it has been revisited and updated. The project is currently postponed until the borrowing to construct the building becomes affordable. We note that the Development Agreement with CityHeart has not yet been signed as a result of additional details having to be worked through, including land assembly, the boundary of the development, existence of power sub-stations and culverts and restrictive covenants.

Value for Money Commentary (continued)

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

No significant weakness identified for 2021/22 and 2022/23

Spend to date on the Old River Lane project is £4 million. The 2023/24 budget outturn report includes a forecasted £500k further spend. From 2023/24 onwards, there is no forecasted budget spends due to:

- ▶ A £2.0 million saving which arose from delay to the likely commencement of the Arts Centre.
- ▶ A decision to pause the Old River Lane & Arts centre project and rephasing of IT capital spend.

Financing of the capital programme

The March 2023 MTFS notes that the capital programme will be largely funded by external borrowing going forward. The Council has previously been debt free, and this new borrowing will impact the revenue account through the requirement to pay interest and also from the requirement to set aside Minimum Revenue Provision (MRP) to meet the repayment of the principal amount of loans. We have already included comment in relation to the Council's MRP policy and calculation earlier in this report.

The latest MTFS, notes that priority has been given to the following and, as a result of the prioritisation exercise, £9.560 million of capital expenditure has been paused until such time as it is affordable for the Council to start a number of capital projects again:

- ▶ completing the major projects;
- ▶ essential maintenance only on operational assets;
- ▶ essential investment for the new waste contract;
- ▶ continuing to deliver means-tested statutory housing improvement loans

Other matters

The Council was not subject to any inspections. The Council partners with a range of external organisations to consult on and deliver services to the local area. These partnerships are managed using boards, committees and other forums either under statutory or locally determined arrangements to agree and monitor performance against targets.

Conclusion: Based on the work performed to date, we have not identified a significant weakness in the arrangements. Our work is however not yet fully complete in relation to the significant overspend on the Hertford Theatre project. We will provide an update to the Audit and Governance Committee once this information has been provided and our work can be concluded.



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Appendices

Appendix A - Summary of arrangements

Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the years 2021/22 to 2022/23

Reporting criteria considerations	Arrangements in place
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	<ul style="list-style-type: none">▪ The Council undertakes an annual exercise to set its annual budget for the following financial year and to update its Medium Term Financial Plan (MTFP), which covers the following four years. Key inputs to this exercise include forecasts for pay and non-pay inflation, changes in the level of demand for the Council's services and changes in funding received from central government.▪ The Council's finance team works with the heads of individual directorates to identify cost pressures, including due to changes in demand for services, and model the impacts of different scenarios on the Council's finances. Significant changes are discussed by the Leadership Management Team and Council Executive prior to being implemented in the MTFP.▪ Performance against the current year's budget is monitored on a quarterly basis during the year and used to identify cost pressures which require reflecting in the next MTFP.
How the body plans to bridge its funding gaps and identifies achievable savings	<ul style="list-style-type: none">▪ As part of the annual budget setting exercise, the Council identifies the level of savings required to match the anticipated net cost of services to the levels of available funding.▪ Individual directorates are required to identify potential savings within their service area, which may arise from reductions to expenditure or increases to income.▪ Savings may also be identified through the Council's finance team, as they are not always directly related to service delivery.▪ Where proposed savings may have a significant impact on service delivery, the Council holds a public consultation prior to incorporating the saving into financial plans.
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<ul style="list-style-type: none">▪ The impact of changes to the Council's financial plans are modelled through a minimum of 4 years as part of the MTFP and any resulting budget gap over that period quantified and incorporated into the following budgeting cycle.▪ The Council aims to meet the costs of its day-to-day activities from available funding. The services continue to search for possible sources of savings and new revenue streams.

Appendix A - Summary of arrangements

Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the years 2021/22 to 2022/23

Reporting criteria considerations

Arrangements in place

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

- The Council develops its Capital Strategy and Investment Strategy alongside the MTFP and incorporates the revenue impact of planned capital expenditure and borrowing into the MTFP.
- The Council facilitates regular communication between finance staff and the Council's directorates to ensure that other plans being prepared by the Council are consistent with the Council's financial planning.
- The Council also requires that all decisions which are deemed significant enough to warrant approval by the senior management team or elected members are approved by the Council's Director of Finance to ensure that the financial implications of significant decisions are considered and reflected in the Council's financial planning.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

- The Council maintains a number of earmarked reserves, which represent amounts set aside from the Council's General Fund to be used for specified purposes in the future. Management use earmarked reserves to allow for known or potential future cost pressures
- In addition, the Council sets a minimum level for its General Fund to ensure that the Council does not fully deplete its reserves through normal activities.

Appendix A - Summary of arrangements

Governance

We set out below the arrangements for the governance criteria covering the years 2021/22 to 2022/23

Reporting criteria considerations

Arrangements in place

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

- Internal audit undertake an annual programme of work to provide assurance over the operation of the Council's internal controls. Risks identified and recorded on the Council's risk registers are used to inform the annual internal audit plan.
- The council also has an established risk management process including a Risk Management Strategy that is reviewed quarterly by the audit committee.

How the body approaches and carries out its annual budget setting process

- The Council continues to review how it can improve the budget setting process. The key being it shouldn't be an annual process, but a living document that is developed over the medium term and the work embedded through business as usual.
- In line with Financial Regulations, the Director Finance & Corporate Services is responsible for the budget setting processes and a planning cycle is put in place to ensure the Council meets its statutory duty of setting a balanced budget annually.
- As set out above the Medium Term Financial Plan is updated and reported to council throughout the year and they generally report in July of each year with initial options and updated scenarios, informed by outturn and then again from November onwards.
- All planning assumptions are considered by the Corporate Leadership Team and are informed through modelling, planning assumptions and intel from wider networks which Directors are part of.
- The Extended Leadership Team are included through the process as the responsible Deputy Directors and through this we ensure 'nothing is missed' and key risks and opportunities have been considered and savings assumptions are realistic and can be delivered.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

- Financial performance is monitored via the quarterly outturn reports and presented to the audit and governance committee.
- Reporting includes comparison of performance to date (outturn) and budget (including any revisions to budget). The main reasons for over- or under-spend are explained in the outturn report.
- As reported on page 13, we have concluded there is a significant weakness in regard to statutory financial reporting due to the Council's continued failure to prepare and publish accounts in line with statutory requirements. We are also considering issuing a statutory recommendation in this regard as part of our formal reporting. We also note that the Council has not included an Annual Governance Statement within its 2021/22 statement of accounts and has yet to publish its 2022/23 and 2023/24 statements of accounts.

Appendix A - Summary of arrangements

Governance (continued)

We set out below the arrangements for the governance criteria covering the years 2021/22 to 2022/23

Reporting criteria considerations

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

How the body 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)

Arrangements in place

- The corporate plan, risk registers, budgets, outturn, among other reports, are presented at the audit and governance committee for review and approval.
 - The internal audit head also reports to the audit and governance committee and provides regular progress reports as regards the internal audit plan. The papers are circulated at least 2 weeks before each meeting to give the audit and governance committee opportunity to review the papers and ask questions during the meeting.
 - The minutes of the meetings are also published in the council's website for the public's reference.
-
- The Council's Constitution includes Codes of Conduct for both elected members and employed officers which set out the expected behaviour of individuals, including the management of conflicts of interest. Failure to adhere to the Codes of Conduct may result in disciplinary processing under the Council's HR policies (for employees) or referral to the Council's Standards Committee (for members).
 - Elected members are required to complete annual declarations of any potential conflict of interest, which are maintained on a register by the Council and made available on the Council's website.
 - Interests giving rise to actual or perceived conflicts should also be declared at the start of any decision-making meetings.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the years 2021/22 to 2022/23

Reporting criteria considerations	Arrangements in place
How financial and performance information has been used to assess performance to identify areas for improvement	<ul style="list-style-type: none">Financial performance is monitored via the quarterly outturn reports and presented to the audit and governance committee. Reporting includes comparison of performance to date (outturn) and budget (including any revisions to budget).The main reasons for over- or under-spend are explained in the outturn report along with mitigating actions.
How the body evaluates the services it provides to assess performance and identify areas for improvement	<ul style="list-style-type: none">Data is collected across a range of locally developed indicators which are collected on a monthly, quarterly or annual basis. These form the basis of the council's performance monitoring process.Cabinet members receive information on all the measures through the Annual Report Indicators. This shows a monthly and quarterly trend of several indicators.
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	<ul style="list-style-type: none">The Council formed a partnership with Stevenage Borough Council to create economy of scale in providing finance, IT, procurement, HR and other services to partner councils.Through Partnership Boards performance is monitored and evaluated to ensure as a 'system' where the Council has direct, or indirect control and influence is supporting the wider outcomes for the council.

Appendix A - Summary of arrangements

Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the years 2021/22 to 2022/23

Reporting criteria considerations

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

Arrangements in place

- Contract procedures rules are in place to ensure that the procuring of all goods, works and services in accordance with the relevant legislation, standard and internal policy. Services have the support of the Procurement Team for advice and support in undertaking procurement activities appropriately. Performance is monitored by the procuring service and as part of the regularly budget monitoring.
- Specific requirements for governance around different types of procurement are set out in the Council's Constitution covering topics such as approval requirements, number of tenders etc.

Appendix B – Summary of recommendations

Recommendations

The table below sets out the recommendations arising from the value for money work in the year(s) covered in this report, 2021/22 and 2022/23. All recommendations have been agreed by management.

Issue	Recommendation	Management response
Financial sustainability	<p>Officers need to ensure robust savings plans are put in place and delivered to ensure spend is contained within budget and planned savings are delivered on a timely basis.</p> <p>The Council should ensure that it mitigates the further use of reserve balances to support the revenue budget in the medium term, by taking steps to ensure that both in-year overspends are minimised and future savings gaps are identified early with schemes put in place, without compromising front line service delivery.</p>	
Governance: Non preparation and publication of the financial accounts for 2022/23 and 21/22 Annual governance statement	<p>The Council should take immediate action to strengthen the arrangements for the preparation and publication of its accounts and relevant associated notices in line with the requirements of the Accounts and Audit Regulations.</p> <p>The Council should ensure actions are taken to address weaknesses identified by Internal Audit, as reported in the AGS, on a timely basis in order for the Council to be assured regarding the adequacy of its governance arrangements.</p>	

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