

East Hertfordshire District Council

Auditor's Annual Report

Year ended 31 March 2024

August 2025

 AZETS



We are required to satisfy ourselves under s20(1)(c) of the Local Audit and Accountability Act 2014 that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report to you if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements are operating effectively.

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Our 2023/34 audit approach and the detailed outcomes of our audit of the financial statements are communicated in the following reports:

- the auditor's report on the financial statements for the year ended 31 March 2024
- The audit completion (ISA 260) report to Those Charged with Governance

This report has been prepared in line with the Code of Audit Practice 2024 (the “Code”) and supporting auditor guidance issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General. This report is required to be published by the Council alongside the annual report and accounts.

We have complied with the Code, International Standards on Auditing (UK) and guidance issued by the NAO in the completion of our work. The NAO guidance includes both the normal Auditor Guidance Notes (AGNs) and the new Local Audit Reset and Recovery Implementation Guidance Notes (LLARIGs) which were issued by the NAO following the publication of [Statutory Instrument \(2024\) No. 907](#) under which the new statutory backstop dates for publishing of English local government financial statements were set in legislation.

Key messages

The purpose of the Auditor's Annual Report is to bring together all the auditor's work over the year. This includes the audit work carried out on the Council's financial statements and the audit work we are required to carry out under the Code on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money (VFM) arrangements).

A core element of the report is our commentary on VFM arrangements, which aims to draw to the attention of the members of the Council and the wider public relevant issues, recommendations arising from the auditor's work and the auditor's view on whether previous recommendations have been implemented satisfactorily.

Area of work	Our responsibilities	Conclusions
Financial statements	<p>We were appointed as auditors to perform an audit of the financial statements of the Council in accordance with International Standards on Auditing (UK) (ISAs (UK)), which are directed towards forming and expressing an opinion on the financial statements that have been prepared on behalf of management with the oversight of Those Charged with Governance.</p> <p>However, The Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (Amendment) Regulations 2024, imposed a statutory backstop date of 28 February 2025 for the publication by the Council of their final Statement of Accounts for 2023/24. The Code specifies that (except in a few exceptional circumstances) auditors are required to issue their auditor's report before this date, even if planned audit procedures are not fully complete, so that local government bodies can comply with this statutory reporting deadline.</p> <p>We considered whether the time constraints imposed by the backstop date meant that we would not be able to complete all necessary procedures to obtain sufficient, appropriate audit evidence to support our audit opinion and fulfil all the objectives of all relevant ISAs (UK). These time constraints were further restricted by the earlier statutory backstop date of 13 December 2024.</p>	<ul style="list-style-type: none">• The opinions for each of the previous two years' financial statements – 2021/22 and 2022/23 – were not able to be issued by the relevant backstop date (13 December 2024). These opinions were subsequently disclaimed by the predecessor auditor on 23 April 2025, by which time the backstop date for the 2023/24 audit (28 February 2025) had also passed. In addition, the Council had not produced any accounts for 2023/24 by the backstop date and, therefore, we were unable to issue any opinion for 2023/24 by the backstop date for 2023/24.• The Council subsequently published the 2023/24 accounts on 30 April 2025. The disclaimed audit opinions issued on each of the previous two years' financial statements by the predecessor auditor result in a lack of assurance on the Council's opening balances as at 1 April 2024. The lack of assurance over opening balances, together with the statutory backstop date for 2023/24 having already passed before the accounts were published, impacts on the audit procedures that we are able to undertake to gain assurance on the 2023/24 financial statements. There is insufficient time and resource available for us to gain sufficient assurance over the 2023/24 accounts, including recovering missing assurance from earlier years.• We therefore intend to disclaim our opinion on the Council's 2023/24 accounts.• The responsibilities of the Council and Those Charged with Governance remain unchanged. The Council's Responsible Finance Officer has a responsibility under The Accounts and Audit Regulations 2015 to confirm that the Accountability Statements included in the Statement of Accounts give a true and fair view. Those Charged with Governance have an essential role in ensuring that they have assurance over the quality and accuracy of the financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit.

Key messages

Area of work	Our responsibilities	Conclusions
<p>Narrative report and annual governance statement</p>	<p>We are required to read and report if the other information included in the Statement of Accounts (including the Narrative Report and Annual Governance Statement) is materially inconsistent with the financial statements and our knowledge obtained from the audit, or otherwise appears to be materially misstated.</p> <p>We are also required to assess whether the Annual Governance Statement complies with the disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.</p>	<ul style="list-style-type: none"> • We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. • As we will be disclaiming the audit we do not have any findings to report in respect of this work.
<p>Value for money</p>	<p>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 in its use of resources. The Code requires us to report to you our commentary relating to proper arrangements.</p> <p>We assess the arrangements in place for securing economy, efficiency and effectiveness in the Council's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.</p> <p>We are required to report our commentary under specified criteria: Financial sustainability, Governance and Improving economy, efficiency and effectiveness.</p>	<ul style="list-style-type: none"> • In 2022/23 the predecessor auditor identified significant weaknesses in the Council's arrangements for the preparation and publication of financial statements. As a result of the weaknesses identified, the auditor made Statutory Recommendations under Schedule 7(2) of section 24 of the Local Audit and Accountability Act 2014 (as amended) (the Act). • As the recommendations were only raised formally in April 2025 there is insufficient time for any of the responses to have been implemented at this date. Accordingly the significant weaknesses remained present during 2023/24 and we have concluded accordingly.
<p>Key recommendations</p>	<p>The Code requires that where auditors identify significant weaknesses as part of their review of the Council's arrangements to secure value for money, they should make recommendations setting out the actions that should be taken by the Council. We consider these to be key, or essential, recommendations.</p>	<ul style="list-style-type: none"> • As the Council considered the statutory recommendations at a public meeting, as required by the Act, we have not re-issued further statutory recommendations but have made key recommendations in respect of the significant weaknesses identified. We have also raised other recommendations for improvement.

Key messages

Area of work	Our responsibilities	Conclusions
Public interest report	Under Section 24, Schedule 7(1)(1) of the Local Audit and Accountability Act 2014 the auditor of the Council must consider whether to make a report in the public interest if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public.	<ul style="list-style-type: none"> We did not identify any matters for which we considered a public interest report to be required as part of our external audit for 2023/24.
Statutory recommendations	Under Section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014 the auditor of a Council can make written recommendations to the Council which need to be considered by the Council and responded to publicly.	<ul style="list-style-type: none"> Whilst the statutory recommendations raised in April 2025 (as part of the 2022/23 audit) are not implemented as there has yet not been sufficient time to do so, the Council has commenced its response and considered the statutory recommendations in public, in line with legislative requirements. We have therefore not raised new statutory recommendations in the same area, pending the Council's implementation of responses to those previously raised.
Application to the court	Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think than an item of account is contrary to law, they may apply to the court for a declaration to that effect.	<ul style="list-style-type: none"> We did not make an application to the court.
Advisory notice	Under Section 29, Schedule 8 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if they think that the Council, or an officer of the Council, is about to make, or has made, a decision which involves or would involve the Council incurring unlawful expenditure, is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or is about to enter an item of account, the entry of which is unlawful.	<ul style="list-style-type: none"> We did not issue any advisory notices.
Judicial review	Under Section 31, Schedule 8 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure to act by an authority, which it is reasonable to believe would have an effect on the accounts of that body.	<ul style="list-style-type: none"> We did not make an application for judicial review.

Financial statements

The Statement of Accounts and financial statements included therein are an important tool for the Council to show how it has used public money and how it can demonstrate its financial health.

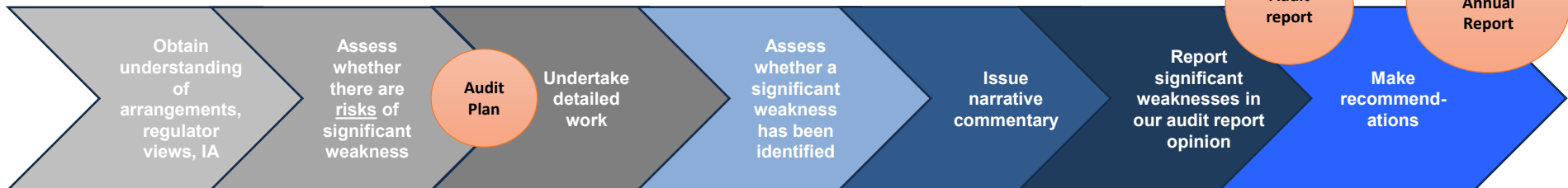
We were appointed as auditors to perform the audit in accordance with International Standards on Auditing (UK) (ISAs (UK)).

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Area of work	Conclusions
Audit opinion on the financial statements	We intend to issue a disclaimed opinion on the Council's financial statements.
Audit Completion (ISA260) report	Further details of our work can be found in our ISA260 report, which will be reported to the Council's audit committee on 30 September 2025. Requests for this report should be directed to the Council. The significant risks we identified as part of our audit are set out in our ISA260 report.
Internal control recommendations	Recommendations relating to internal control arising from our financial statements work are contained in the Audit Completion (ISA260) report. None of the recommendations reflected significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in the Council's use of resources and, as such, are not considered key recommendations.
Whole of Government Accounts (WGA)	<p>We are required to carry out specified procedures on behalf of the NAO on the WGA consolidation pack under WGA group audit instructions.</p> <p>The Council does not exceed the threshold for detailed testing. The requirement for us to issue an assurance statement to the NAO has expired as the WGA audit has now been concluded and certified by the NAO for 2023/24.</p>
Preparation of the accounts	Under The Accounts and Audit Regulations 2015 the deadline for the production and approval for the draft financial statements was 31 May 2024. The Council did not prepare its draft accounts in line with this deadline as, at the time, the prior year audit had not been concluded. The draft financial statements were published and made available for inspection on the Council's website on 30 April 2025.

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 Code and the requirements of Auditor Guidance Note 3 ('AGN 03').



Updated risk assessment

At the time of making our initial risk assessment in January 2024 the predecessor auditor had not concluded their value for money work. We reported at the time that, upon completion of their work by the predecessor auditor, we would reconsider our planning assumptions and update our risk assessment as appropriate to take account of the findings reported. The predecessor auditor reported their findings on 22 April 2025. The impact on our risk assessment is set out in the table below.

Criteria	Significant weaknesses reported by prior year auditor in 2022/23	Key recommendations made by prior year auditor in 2022/23	Impact on 2023/24 risk assessment
Financial sustainability	No	No	No significant risks identified
Governance	Yes	Yes	Risk of significant weakness identified in the arrangements to support statutory financial reporting requirements
Improving economy, efficiency and effectiveness	No	No	No significant risks identified

Value for money

In undertaking our work we have identified the following significant weaknesses in arrangements. Our detailed commentary is set out on the following pages.

Reporting criteria	Planning – risk of significant weakness identified?	Final – significant weakness identified?	Key recommendations made?	Other recommendations made?
Financial sustainability How the body plans and manages its resources to ensure it can continue to deliver its services	No	No	No	Yes
Governance How the body ensures it makes informed decisions and properly manages risk	Yes	Yes	Yes	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	Yes

Value for money

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.

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.

Summary of findings

In 2022/23 the predecessor auditor identified significant weaknesses in the Council's arrangements for the preparation and publication of financial statements. As a result of the weaknesses identified, the auditor made Statutory Recommendations under Schedule 7(2) of section 24 of the Local Audit and Accountability Act 2014 (as amended) (the Act).

As the recommendations were only raised formally in April 2025 there is insufficient time for any of the responses to have been implemented at this date. Accordingly the significant weaknesses remained present during 2023/24 and we have concluded accordingly.

As the Council considered the statutory recommendations at a public meeting, as required by the Act, we have not re-issued further statutory recommendations but have made key recommendations in respect of the significant weaknesses identified. We have also raised other recommendations for improvement.

Value for money

Introduction

East Hertfordshire District Council (the Council) is a district council in Hertfordshire. It works with nine other district and borough councils, local parish and town councils and Hertfordshire County Council (which includes Hertfordshire Fire and Rescue Service) in a three-tier local government system. It serves a population of approximately 150,000 residents.

The Council is responsible for a range of local services, including planning, waste collection, and environmental health. The Council has entered into a number of significant capital investment projects, notably the £30m refurbishment of Hertford Theatre, aimed at cultural regeneration and boosting local economic activity, and the Regeneration of Old River Lane and Arts Centre. However, these projects have been problematic: initial budgets have been significantly exceeded (the Theatre was initially budgeted at a cost of £24m in March 2022 but is now forecast to cost £30m to complete), resulting in both projects being curtailed or paused.

A recent finance peer review (March 2024) highlighted several challenges, including:

- Low usable reserves, raising concerns about financial resilience.
- Heavy reliance on asset sales (over £10m planned) and ambitious income targets from capital investments.
- A need for improved risk analysis, especially regarding the commercial viability of major projects like Hertford Theatre.
- Delayed financial monitoring, with key reports being reviewed months after the reporting period.
- The need for improvement in a number of areas, including savings and reserves management and strategy

Like other councils, East Hertfordshire District Council faces uncertainty over future government funding, with only single-year settlements currently provided. This complicates long-term financial planning.

Like all councils and the wider local government sector, East Hertfordshire continues to face significant challenges. The sector faces high levels of uncertainty over future levels of government funding and, for a number of years, has had to plan on the basis of single-year settlements. This makes it harder to produce comprehensive multi-year plans as part of medium-term financial planning. The government has signaled 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 East Hertfordshire 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 and, whilst it had been falling, since February 2025 inflation has been increasing, indicating reduced certainty about what the future may hold, economically. High interest rates have provided the Council with fortuitously higher than expected interest income on cash balances, but the combination of higher inflation and higher interest rates impacts local communities, including the community the Council serves in East 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.

The Council has faced a challenging environment over the past few years. There have been changes at the Chief Executive and Chief Finance Officer (CFO) level, with a new substantive CFO being appointed on 1 April 2025. The Council has been unable to produce its accounts on time and this resulted in the predecessor auditor raising three statutory recommendations in April 2025.

Financial sustainability

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

We considered the following areas:

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

General fund overview

As at 31 March 2024, East Hertfordshire District Council's General Fund balance remained at £3.9m, unchanged from the previous year and above the Council's minimum level of £2.2m. However, the Council's earmarked reserves increased from £18.7m to £20.9m, reflecting a net contribution of £2.2m during the year. This brings the total usable General Fund reserves to £26.0m, up from £23.6m a year earlier. This is a reasonable overall level of reserves; the Council's net expenditure on services in 2023/24 was £23.9m 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. £14.0m of the £20.9m earmarked reserves are held for two specific purposes: New Homes Bonus priority spend (£8.9m) and the collection fund reserve (£5.1m). The New Homes Bonus priority spend reserve was established from unspent New Homes Bonus monies received from DCLG and the 2014/15 general fund underspend. Over the years, further amounts of New Homes Bonus monies have been transferred to this reserve. The collection fund reserve was established to smooth the effect on the Council of income volatility following the new business rates funding regime.

This means only £6.9m of the earmarked reserves are available to manage financial risk. Of this, the most significant reserve is the interest equalisation reserve (£3.3m), established to assist the Council in managing the financial implications of adverse interest rate fluctuations. The Council also holds an additional General Reserve of £1.1m, which supports cash flow management and provides contingency funding.

Overall, this means the total combined level of general and earmarked reserves available for managing unexpected financial risk is relatively low, particularly in the context of the financial risks the Council faces. The Council may wish to consider whether this level is sufficient in the context of the current financial and macro-economic risks.

Arrangements

The Council's financial planning is guided by its Medium-Term Financial Plan (MTFP), which outlines the strategic approach to managing income, expenditure, inflationary pressures and capital investment over a multi-year horizon.

East Hertfordshire District Council has procedures in place to identify significant financial pressures for its short- and medium-term plans. It sets its annual budget and updates its Medium-Term Financial Plan (MTFP) annually for the subsequent four years, considering factors such as inflation, service demand and changes in government funding.

The finance team collaborates with service heads to identify cost pressures and model various financial scenarios. Significant changes are reviewed by the Leadership Management Team and the Council Executive before being incorporated into the MTFP. The Council also monitors its budget performance on a quarterly basis to identify and address cost pressures in the upcoming MTFP.

During the annual budget-setting process, the Council determines the necessary savings to align the expected net cost of services with the available funding. Each service area is required to identify potential savings, which may come from either reducing expenditure or increasing income. Additionally, the Council's finance team may identify savings not directly linked to service delivery.

Financial sustainability

The Council produces the Medium-Term Financial Plan and the Corporate Plan together, treating them as complementary documents. Most of the Council's spending is directed towards statutory services, which are delivered in line with its priorities. Despite reductions in government funding, the Council aims to maintain discretionary services that support its strategic goals. Future forecasts indicate that further cost reductions will be necessary, requiring difficult decisions that align with the Council's priorities.

The Council also has a budget challenge process to review the cost and delivery of its services, assessing both statutory and non-statutory services against the priorities outlined in the Corporate Plan. The Corporate Plan integrates all strategic plans and is discussed in Leadership Team Workshops, feeding into the budget-setting process.

The annual financial plan and budget, presented each March, include revenue, investment and capital planning. Treasury management and capital proposals are reviewed by the Audit and Governance Committee. The budget is allocated across Council services to align with the broader Council strategy, and regular communication between finance staff and directorates is required to maintain continued alignment.

Financial position, savings and reserves

East Herts District Council's Medium Term Financial Plan (MTFP) 2024/25 incorporates several key assumptions to address ongoing financial pressures and ensure sustainability. These include a 2.99% increase in Council Tax, generating an additional £366k annually, and assumptions around continued inflationary pressures, particularly in staff pay and major contracts. To balance the budget, the Council has outlined savings requirements over the next four years of £6.9m with a requirement of £2.2m in each of 2024/25 and 2025/26. In the subsequent years, a further £1.8m of savings are required in 2026/27 and £0.6m in 2027/28.

These savings requirements over the next four years are challenging. The Finance Peer Challenge report undertaken in February to March 2024 raised concerns over the Council's financial monitoring processes, both in terms of timeliness and usefulness of the content of the reports in informing decision making. It also noted a number of areas for improvement in relation to savings and reserves management and strategy.

- 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;
- Improving the clarity of explanation in budget reports as to how the savings identified impact on future years and ensuring that all savings figures are fully reconciled;
- Improving the consideration of financial risk in determining a minimum level of reserves to be maintained, as the peer report considered the reserve levels to be comparatively low;
- Publishing an explicit statement on the Council's useable reserves position within the budget report

The review also contained other related recommendations. The Council has made minimal progress in responding to these recommendations to date but, with the appointment of a new substantive chief finance officer in early 2025, responding to the recommendations has been prioritised and actions are being actively considered.

To further mitigate financial risks, the capital programme has been adjusted, including pausing the Old River Lane Arts Centre project to save £1.5m in costs annually. Investment will focus on essential property maintenance, ICT upgrades, and invest to save initiatives with a payback period under ten years. Revenue generation will be supported by renting out part of the Council's head office (Wallfields) and selling Council-owned property, aiming to raise £6m for loan repayments. Despite financial constraints, the Council remains committed to protecting services for vulnerable residents and aligning decisions with strategic priorities.

The Council's assumptions in its financial strategy are not unreasonable and are supported by well-thought through rationale. Unavoidably, there remains risk attached to them. The strategy assumes pay increases of 2% per annum. It also assumes contract inflationary increases of 2.5% per annum. The risk remains that the anticipated reductions in inflationary pressures fail to materialise. In February 2025, inflation was 3%, which will put pressure on the 2% assumption built into 2025/26. Higher inflation will put increased pressure on pay budgets and contract budgets.

Financial sustainability

The MTFP assumes the savings targets will be achieved in full to avoid further reliance being placed on in-year use of general fund reserves over the period to 2027/28. 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. The Council will need to ensure it has arrangements in place to identify and then deliver the substantial savings requirement each year.

The Council has started to consider what these actions may require although there has not been sufficient time for these to be finalised or implemented. This includes the following actions and considerations to date:

- A new tracking spreadsheet has been created to ensure the details behind the savings plans within the MTFP can be monitored regularly. This now includes a phasing of when savings are likely to materialise – which month they start to occur in and any that will not fully materialise in the current financial year – but will continue to materialise in 26/27. Additional savings and income are also being included. The planned approach will be shared with Members
- The MRP policy is being updated
- The Chief Finance Officer is considering and identifying actions to address the findings of the Finance Peer Review
- The Council's Asset Management Group is reviewing all assets to determine suitability for disposal, further investigation, or retention based on criteria like use value and strategic fit. The disposal program started in October 2024, with revenue benefits expected in the 2025/26 budget, reducing the need for reserves and optimizing asset value.

The Group position

East Hertfordshire District Council wholly owns Millstream Property Investments Ltd, which was formed by the Council in February 2018. There are no minority shareholders and no restrictions on the Council's ability to access or use the assets or settle the liabilities of the group. Millstream Property Investments Ltd was created to acquire, develop and refurbish homes to provide rental properties to tenants wishing to live in the private sector, but with the assurance that the accommodation is managed by a responsible landlord.

Based on Millstream Property Investments Limited's financial statements for the year ended 31 March 2024, the company remains in a position to cover its liabilities without requiring intervention from East Hertfordshire District Council.

As of 31 March 2024, Millstream reported net assets of £2.2m, down from £2.3m in 2023, primarily due to a reported loss of £0.1m for the year. This loss was driven by a downward revaluation of its investment properties which fell by £0.2m to £5.5m. Despite this, the company continues to hold a strong asset base, with 17 residential properties and no restrictions on their realisation, aside from the mortgage held by the Council.

Financial sustainability

Millstream's liabilities include £3.1m in long-term loans and £0.2m in current liabilities. Notably, the shareholder loan component has been significantly reduced to £0.3m (from £2.0m in 2023), with only one property now secured against it. The company also holds £0.1m in current assets, including £0.09m in cash, which is sufficient to meet its short-term obligations.

While the company's profitability has declined, its equity position remains positive, supported by £1.7m in share capital and £0.6m in retained earnings. In summary, although Millstream's financial position has weakened slightly due to property market adjustments, it still retains sufficient assets and liquidity to meet its liabilities independently, without immediate need for financial support from the Council.

The company's auditors issued a clean, unmodified opinion in respect of the company's 2023/24 accounts. Their audit report also stated that they had "not identify any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months" following the authorising for issue of the accounts.

The 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 manner of spreading these costs is through an annual Minimum Revenue Provision. In 2021/22 and 2022/23, East Hertfordshire District Council did not set aside a Minimum Revenue Provision (MRP), citing a negative Capital Financing Requirement (CFR) during those years.

However, in 2023/24, the Council introduced an MRP provision of £0.6m. While this marks a positive step, the level of provision remains relatively low.

It is important, therefore, 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, reducing future financial pressure.

Indicators of prudence can be assessed by comparing the MRP to the Council's CFR and total borrowings. A level of MRP below 2% of the CFR and 3% of total borrowings may indicate increased financial risk. In 2023/24, the Council's MRP equates to approximately 1% of the CFR and 1% of total borrowings. This suggests a higher risk that the current level of MRP may be insufficient to ensure long-term financial resilience.

While maintaining a low MRP may temporarily improve short-term financial flexibility, it poses several risks that could impact the local authority's financial health in the medium to longer term. A low MRP results in slower repayment of the CFR, leading to the accumulation of long-term debt. Borrowing costs (interest payments) are therefore likely to remain a financial burden for future budgets, reducing the flexibility to address emerging priorities.

A low MRP also limits the ability to borrow further for new capital projects, as a higher CFR reduces headroom under statutory and policy borrowing limits. The Council also has a statutory responsibility to ensure it is providing a prudent MRP charge under the Local Government Act 2003.

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.

Management should review the current provision in future years to ensure that the annual MRP adjustment is adequate and prudent, considering the CFR and existing and planned borrowing levels, and ensure longer term financial risks are contained.

Financial sustainability

Prior year recommendations

In their Annual Auditor's Report for 2021/22 and 2022/23 issued in April 2025, the predecessor auditor raised a number of recommendations for the Council. Due to the short passage of time between the previous Auditor's Annual Report and this current one, there is not an expectation that the Council would have had an opportunity to fully address the recommendations raised. However, work has begun in these areas, and this is set out in more detail in the "Follow up of prior recommendations" section later in this report.

In undertaking our review for 2023/24, we raise the following recommendations. Where these are updated from the prior year recommendation, the prior year recommendation has been subsumed into the current recommendation as appropriate.

Recommendations 2023/24

1. Officers should consider the minimum level of reserves and the current available levels of reserves in the context of the financial risks currently faced by the Council and the scale of the savings requirements. The total combined level of general and earmarked reserves available for managing unexpected financial risk is relatively low, particularly in the context of the financial risks the Council faces. The Council may wish to consider whether this level is sufficient in the context of the current financial and macro-economic risks.
2. Officers should 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.
3. 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.
4. The Council should ensure it takes action to address the findings and recommendations from the Finance Peer Challenge as a matter of urgency.

5. The Council should undertake a review of its Minimum Revenue Provision (MRP) policy and calculation to ensure it is fully compliant with the statutory requirements and guidance and that sufficient set asides are being made. Management should ensure the annual MRP adjustment is adequate and prudent, considering the Council's CFR and borrowing levels, and ensure longer term financial risks are contained.

Summary

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

The Council has set balanced budgets and maintained general fund reserves above their minimum level as set out in the Council's current policy.

However, there are financial risks present which, if not managed effectively over the short term, could introduce significant weakness in future years. 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. The Council is cognisant of the fact it will need to respond in full to the recommendations set out in the Finance Peer Review from 2024, strengthen the arrangements in place to monitor, deliver and report on savings requirements and ensure the reserves strategy is fully aligned with financial risk. Work has already begun in these areas.

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).

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

The Council considers fraud and counters risk across a broad range of areas. The Council has a Risk management strategy in place that is reviewed quarterly by the audit and governance committee.

The Strategic Risk Register outlines the most significant business risks that could hinder the Council from achieving its objectives. The Leadership Team has established a defined risk tolerance level; any risks exceeding this threshold are actively managed and reviewed on a regular basis to ensure appropriate mitigation and contingency measures are in place. Risks that fall below the tolerance level are typically managed by Heads of Service, who are responsible for ongoing monitoring and implementing actions to reduce their potential impact. A visual summary of these risks, including the tolerance threshold, is presented in a matrix. Risks positioned in the red zone of this matrix are those that require active oversight by the Leadership Team, in line with the Council's Risk Management Strategy

The Council welcomes constructive challenge from scrutiny by internal and external audit activity, the work programme of the Overview and Scrutiny Committee (which reviews reports and updates that may include risk related content and requesting further investigation or clarification on issues that might pose significant risk to service delivery or public trust), and other external inspection agencies.

The Council promotes informed decision-making by establishing committees with distinct responsibilities. These committees hold regular meetings to address significant matters in accordance with their terms of reference. Details of these meetings, including agendas, are published on the Council's website to foster transparency and facilitate stakeholder engagement. Reports are distributed well in advance of meetings to enable members to contribute effectively and raise challenges. The Council's governance processes are reviewed by the Audit and Governance Committee. At the start of each committee meeting, members are required to declare any disclosable pecuniary interests or other registrable interests they may have in relation to items on the agenda, in line with the Council's Code of Conduct.

The Council's Monitoring Officer holds overall responsibility for ensuring that the Council, its officers and elected Councillors act 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. Training needs are identified through job specifications and considered during the annual appraisal process. These processes are incorporated within the Council's appraisal system and are published in the "Our Values and Behaviours" document and the Employee handbook, which has been disseminated to all staff.

Staff members are periodically reminded about the declaration of interests and hospitality. The Council has a whistleblowing policy and a separate email address for this purpose. Additionally, the Shared Anti-Fraud Service (SAFS) has conducted team talks to help staff identify potential fraud and understand how to report it.

Governance

Procurement at East Hertfordshire District Council is governed by clear procedures designed to ensure compliance with the Procurement Act 2023, internal policies, and relevant legislation. The council follows defined thresholds for public sector purchasing, with procurements above these thresholds being required to be advertised via the Find a Tender service. Services across the Council can access specialist support from the Procurement Team, and procurement performance is monitored through regular budget reviews. Officers receive training to ensure compliance, which is reported quarterly to the Leadership Team as part of the council's commitment to transparency, value for money and continuous improvement.

Contracts are actively reviewed to enhance service delivery and explore insourcing opportunities. A partnership register is also maintained, with annual reviews conducted for informal partnerships.

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

A joint Stevenage / East Herts ICT Partnership Board meets every month to consider the strategic direction of the service. A Joint (Member led) Committee Board meets quarterly to review the ICT Improvement Programme. The ICT service is committed to embracing new digital opportunities to better meet the needs of residents, achieve savings and transform services. A secure, resilient, effective, and forward-looking Technology Service is critical in delivering these aims. Access to all IT systems is strictly defined according to role. Password access is controlled according to best practice. Specific Council policies exist (whistleblowing, anti-money laundering for example) and training offered to Officers and Councillors in these areas to encourage early detection and investigation of any suspicious activity. The information governance policy is still in the process of being reviewed by the council which will then be approved by the members of the council.

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

In compliance with the requirements of the Accounts and Audit Regulations 2015, the Council relies on the Shared Internal Audit Service (SIAS), which undertakes a programme of work to review the effectiveness of the Council's risk management, control environment, and governance processes. An annual operational audit plan is presented to the Audit and Governance Committee for approval. Progress against this plan is reviewed at Audit and Governance Committee (AGC) meetings, where members also monitor the implementation of audit recommendations through quarterly reports presented by SIAS.

The overall internal audit assurance opinion is 'Substantial assurance' on financial systems, meaning there is a sound system of governance, risk management, and control, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. The assurance on the non-financial systems is 'Reasonable assurance', meaning there is a sound system of governance, risk management, and control in place. Some issues, non-compliance, or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited. SIAS has concluded that the corporate governance and risk management frameworks comply with the CIPFA / SOLACE best practice guidance on corporate governance. This conclusion is based on the work undertaken by the Council and reported in its Annual Governance Statement for 2023/24 and the specific reviews of Risk Management and Corporate Governance conducted by SIAS during the year.

Governance

The governance framework of East Hertfordshire District Council (EHDC) is based on the principles outlined in the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government (2016). This framework offers a comprehensive model to ensure that local authorities operate lawfully, transparently, and accountably, while delivering value for money and effective public services.

EHDC has a formal complaints procedure in place to ensure that concerns raised by residents and service users are addressed fairly and transparently. Complaints specifically related to Councillor conduct are managed under a separate procedure, overseen by the Standards Sub-Committee and the Monitoring Officer, in accordance with the Council's ethical governance framework.

The Council also has formal employment procedures for senior statutory roles, including the Head of Paid Service, Monitoring Officer, Chief Finance Officer and Strategic and Assistant Directors. These procedures are outlined in the Council's Constitution under the Officer Employment Procedure Rules. They cover recruitment, appointment, and disciplinary processes, ensuring transparency, fairness, and compliance with relevant legislation. Appointments are overseen by the Chief Officer Recruitment Committee, and disciplinary matters involving statutory officers follow the requirements of the Local Authorities (Standing Orders) (England) Regulations 2015.

The Council has a Whistleblowing Policy based on the Public Interest Disclosure Act 1998, as well as an Anti-Fraud and Anti-Corruption Strategy. It also has an Anti-Money Laundering Policy in place and has designated the Head of the Shared Anti-Fraud Service (SAFS) as the Money Laundering Reporting Officer (MLRO). The Council's website and intranet provide options for both the public and staff to report suspected fraud, with links directing users to the Shared Anti-Fraud Service webpage.

The previous auditor raised a recommendation for the Council to 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. The income Chief Finance Officer has implemented actions to address this recommendation which, due to the short passage of time, are currently in their infancy. We have therefore rolled forward this recommendation to 2024/25.

Governance Weaknesses in Financial Reporting Compliance

In 2022/23 the predecessor auditor identified significant weaknesses in the Council's arrangements for the preparation and publication of financial statements. As a result of the weaknesses identified, the auditor made Statutory Recommendations under Schedule 7(2) of section 24 of the Local Audit and Accountability Act 2014 (as amended).

This was due to the non-preparation and delayed publication of the financial statements for 2021/22 and 2022/23 and the absence of the 2021/22 Annual Governance Statement. These delays constituted non-compliance with several provisions of the Accounts and Audit Regulations 2015. The following factors were key to this determination:

2021/22

- the Council did not comply with the requirements of the Accounts and Audit Regulations, as the inspection period did not start until 12 December 2023.
- the accounts published for inspection did not include an Annual Governance Statement.
- the Statement of Responsibilities for the Statement of Accounts 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.

2022/23

- the Council did not comply with the requirements of the Accounts and Audit Regulations as they did not prepare and publish the set of draft accounts until 6 November 2024.
- the Council did not publish a notice stating that the Council has not been able to publish the statement of accounts and its reasons for this.

2023/24

- The Council failed to produce a set of accounts and did not include the required notices on its website.

Governance

As a result, the auditor 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 arrangements.*”

The auditor made three statutory recommendations, as follows:

1. Finance Function Workflow Review:

Conduct a comprehensive review of the finance function workflow to identify bottlenecks in the flow of information and the completion of key finance tasks. Use the findings to redefine roles and responsibilities within the finance team, ensuring an equitable distribution of workload and preventing any single individual from being overburdened.

2. Quality Assurance Function Review: Implement a thorough review of the quality assurance process for draft accounts and underlying workpapers. Establish clear timelines for the closedown process, ensuring appropriate segregation of duties between those preparing and those reviewing the draft accounts and workpapers. Monitor adherence to this process and report performance to the Audit and Governance Committee.

3. Finance Team Capacity: Re-assess roles, responsibilities and resource requirements for financial reporting across the Council, including an assessment of the support required from other functions within the organisation for the financial reporting function to meet its objectives and to restore timely financial reporting in accordance with the requirements of the Accounts and Audit (Amendment) Regulations 2024.

When such a statutory recommendation is made the Council must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the authority. The recommendation was presented to the Council on 22 April 2025 and discussed by the Council in that meeting (the Audit and Governance Committee) and in the full Council meeting on 14 May 2025, thereby complying with the one month requirement.

At that meeting the Council was required to decide:

- whether the report requires the authority to take any action or whether the recommendation is to be accepted, and
- what, if any, action to take in response to the report or recommendation.

At the full Council meeting on 14 May 2025 the Council resolved that

- The Council accepts the recommendations made by the External Auditor within Appendix A.
- The Audit and Governance Committee should receive updates on progress against the recommendations and actions within the report on a regular basis.

A new Chief Finance Officer (section 151 officer) was appointed on 1 April 2025. Following the issuing of the disclaimed opinions for 2021/22 and 2022/23 by the predecessor auditor, the 2023/24 accounts and annual governance statement were prepared and made available for public inspection by the Council on 30 April 2025.

Following the full Council meeting at which the statutory recommendations were considered, the 2024/25 accounts and annual governance statement were prepared and made available for public inspection on 27 June 2025. This was in compliance with the Accounts and Audit Regulations for the 2024/25 accounts.

The publication of the 2024/25 accounts by the statutory deadline is a welcome achievement for the Council and indicates an improvement in the arrangements which have enabled the Accounts and Audit regulations deadlines to be met for the first time in several years. In addition, the Chief Finance Officer has set out a number of actions to address each of the three statutory recommendations which will be taken forward over the coming year.

As the recommendations were only raised formally in April 2025 there is insufficient time for any of the responses to have been implemented at this date. However, the initial thinking in response to the actions is encouraging.

Governance

The Council is currently undertaking a finance function workflow review to identify bottlenecks in the flow of information and the completion of key financial tasks. The findings will be used to redefine roles and responsibilities within the finance team, ensuring a fair distribution of workload and preventing any single individual from becoming overburdened.

Whilst this review is taking place, capacity within the finance team is limited and, whilst the Council successfully produced the 2024/25 accounts on time, it is not yet in a position to be able to adequately facilitate and respond to the audit of these accounts in terms of capacity and availability of resources. The workforce review will need to ensure it encompasses consideration of tasks required not just to produce the accounts, but also to respond to the detailed and often rigorous requirements of the external audit, whilst simultaneously continuing to deliver the wider requirements of the finance function. This is essential if future audits are to be able to not only deliver the in year audit but also undertake the work required to build back assurance and return to clean / unmodified opinions on the financial statements.

The Council has responded appropriately to the statutory recommendations and is investing time towards recovery. As there has been insufficient time for the recommendations to have been developed and implemented in full, and given that the accounts for 2023/24 were only produced on 30 April 2025, this is evidence that the significant weaknesses in the arrangements remained throughout 2023/24. We have therefore rolled forward the recommendations associated with the significant weaknesses but have not re-raised them as statutory recommendations, given the Council's response to the recommendations and early stages of work in response to them.

Summary

There are significant weakness in governance in relation to the Council's procedures supporting the production of its financial statements.

In 2023/24, the Council did not produce its financial statements in line with the Accounts and Audit regulations and did not include the required notices on its website. The Council has started responding to the recommendations made in April 2025 in respect of the significant weaknesses but there has, to date, been insufficient time for these to have been developed, actioned and implemented in full. The Council will also need to ensure it can restructure the finance team such that there is sufficient capacity to facilitate annual external audit reviews and the building back of assurance over the disclaimed audit years.

We have therefore determined there are significant weaknesses in the arrangements to support statutory financial reporting requirements.

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, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- where the Council commissions or procures services, how it ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how it assesses whether it is realising the expected benefits.

The Council monitors its performance through key performance indicators (KPIs), quarterly financial and performance reports and both internal and external audits. These reports, reviewed by the Audit and Governance Committee, compare actual performance against the budget, explain any variances, and outline mitigating actions. Resident and customer feedback, benchmarking against other local authorities, and regular reviews of progress against the Corporate Plan also contribute to service evaluation. A risk management strategy supports continuous improvement by identifying and addressing potential risks.

The East Hertfordshire District Council Corporate Plan (2024–2027) sets out the Council's strategic direction, focusing on four priorities: transparency and responsiveness, environmental sustainability, community collaboration, and fairness in service delivery. It aims to strengthen public engagement, improve air quality and green infrastructure, support local housing and high streets, and promote inclusive cultural and wellbeing initiatives. The plan also includes governance reforms and updates to Council Tax support to foster a more connected and equitable district.

To achieve efficiencies, the Council collaborates with Stevenage Borough Council and North Hertfordshire District Council to jointly deliver services such as IT, Revenues and Benefits, Procurement and Waste. These partnerships are overseen by various boards to ensure effective performance management and service delivery.

Procurement is governed by procedures to ensure compliance with legislation, standards, and internal policies. The Council follows the Procurement Act 2023, which sets thresholds for public sector purchasing. Services can access specialist support from the Procurement Team, and performance is monitored through regular budget reviews. Training is provided to officers, and compliance is reported quarterly to the Leadership Team.

Capital and investment projects

The Council had previously entered into a number of significant capital and investment projects. This included the regeneration of Old River Lane in Bishop's Stortford, the continued redevelopment of Hartham Leisure Centre and the Hertford Theatre Development.

There have been significant delays and / or cost overruns on two of these projects. In particular:

- **Hertford Theatre Development:** The initial contract was awarded in March 2022 for £18.9m. The project has encountered a series of budgetary challenges due to rising inflation and increases in costs of labour and materials. This resulted in an increased budget for the development, which stood at £24.1 million at March 2022. The project is now expected to cost £30.2 million to complete in its entirety and at the current date the forecast outturn is a projected overspend of £2.6 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.

Improving economy, efficiency and effectiveness

- **Old River Lane and Arts Centre:** The Council purchased the Old River Lane site in 2015, after a private sector scheme failed to be delivered. 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. 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 spend due to a £2.0 million saving which arose from delay to the likely commencement of the Arts Centre, and a decision to pause the Old River Lane & Arts centre project and rephasing of IT capital spend.

These challenges indicate weaknesses in the arrangements for overseeing and delivering the capital programme and call into question the wisdom of some of the decisions made in earlier years and the efficacy of corrective action during that period.

The Council has now significantly reduced its capital programme and paused £9.6m of capital spend. Management's recent responses have been appropriate and the latest forecast for the leisure centre is that the Council hopes to generate circa £0.26m in income per annum from the current arrangement. The Council acknowledges the previous Theatre business case was 'optimistic' and is revisiting it to arrive at a more realistic position. The Old River Lane and Arts centre development is subject to an ongoing review to ensure any monies committed in the future (if any) are prudent and economical.

The Council is also actively looking at asset disposals to reduce borrowing and make MRP savings. Whilst these actions, in isolation, make sense, the Council will now also need to be mindful of the Local Government Reorganisation (LGR) proposals, and in particular ensure significant asset disposals, particularly land disposals, are in the best interests of both the Council and any successor unitary body.

Summary

We have not identified any significant weaknesses in the Council's arrangements.

However, there are risks present which, if not managed effectively, could introduce significant weakness in future years, particularly in relation to future capital programmes and asset disposals.

Key recommendations

These recommendations relate to significant weaknesses we have identified during the course of our work. Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work.

Criteria	Significant weakness	Key recommendations	Response
Governance <i>significant weaknesses in the arrangements to support statutory financial reporting requirements</i>	<p>There are significant weaknesses in the Council's arrangements for the preparation and publication of financial statements. In 2023/24, the Council did not produce its financial statements in line with the Accounts and Audit regulations and did not include the required notices on its website. The Council has started responding to the statutory recommendations made in April 2025 by the previous auditor in respect of the significant weaknesses but there has, to date, been insufficient time for these to have been developed, actioned and implemented in full.</p>	<p>1. Finance Function Workflow Review: Conduct a comprehensive review of the finance function workflow to identify bottlenecks in the flow of information and the completion of key finance tasks. Use the findings to redefine roles and responsibilities within the finance team, ensuring an equitable distribution of workload and preventing any single individual from being overburdened.</p> <p>2. Quality Assurance Function Review: Implement a thorough review of the quality assurance process for draft accounts and underlying workpapers. Establish clear timelines for the closedown process, ensuring appropriate segregation of duties between those preparing and those reviewing the draft accounts and workpapers. Monitor adherence to this process and report performance to the Audit and Governance Committee.</p> <p>3. Finance Team Capacity: Re-assess roles, responsibilities and resource requirements for financial reporting across the Council, including an assessment of the support required from other functions within the organisation for the financial reporting function to meet its objectives and to restore timely financial reporting in accordance with the requirements of the Accounts and Audit (Amendment) Regulations 2024.</p> <p>The Council will also need to ensure it can restructure the finance team such that there is sufficient capacity to facilitate annual external audit reviews and the building back of assurance over the disclaimed audit years.</p>	<ol style="list-style-type: none"> 1. The 2021/22 and 2022/23 Statements of Accounts were approved on 22 April 2025. The disclaimed audit opinion was issued on 23 April 2025. 2. The 2023/24 accounts were completed and published on the Council's website on 30 April 2025. 3. The 2024/25 accounts were completed and published on the website on 27 June 2025, in line with the statutory deadline set out in the Accounts and Audit Regulations. 4. The Chief Finance Officer, substantively appointed on 1 April 2025, is considering additional controls to ensure adequate time is given for reviews to be undertaken prior to publication of future financial statements. 5. A review of the Finance team will be undertaken during 2025 to propose a new structure that will address: <ol style="list-style-type: none"> i. potential 'single point of failure'; ii. capability and capacity of the team to ensure it is fit for purpose; iii. consideration of whether individuals have the necessary skills needed to deliver in line with all deadlines; iv. tasks are clearly defined and delivered on time.

Other recommendations

These recommendations relate to less significant deficiencies or opportunities for improvement we have identified during the course of our work. Progressing the actions management has identified to address the recommendations made will support the Council in realising the improvement opportunities identified from our work.

Criteria	Observation	Recommendations	Response
Financial sustainability	There are financial risks present which, if not managed effectively over the short term, could introduce significant weakness in future years. 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. The Council is cognisant of the fact it will need to respond in full to the recommendations set out in the Finance Peer Review from 2024, strengthen the arrangements in place to monitor, deliver and report on savings requirements and ensure the reserves strategy is fully aligned with financial risk. Work has already begun in these areas.	1. Officers should consider the minimum level of reserves and the current available levels of reserves in the context of the financial risks currently faced by the Council and the scale of the savings requirements. The total combined level of general and earmarked reserves available for managing unexpected financial risk is relatively low, particularly in the context of the financial risks the Council faces. The Council may wish to consider whether this level is sufficient in the context of the current financial and macro-economic risks.	A new tracking spreadsheet has been created to ensure the details behind the savings plans within the MTFP are monitored regularly
		2. Officers should 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.	This now includes a phasing of when savings are likely to materialise – which month they start to occur in and any that will not fully materialise in the current financial year – but will continue to materialise in 26/27.
		3. 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.	The CFO has reviewed all savings plans for 2025/26 and 2026/27 and has an updated position. This is awaiting wider review by finance colleagues and will then be reported to the next long term budget meeting. Following this, there will be a need to review mitigations or whether need to build into the next MTFP.
			Additional savings and income are also being included – in separate sections – so that the overall position is reviewed and monitored more frequently (Monthly) by the leadership team. This gives a better visual ‘overview’ of what is materialising, where issues are arising and when savings might not deliver. This in turn allows plans to be re-looked at and mitigation steps to be started sooner rather than later. This will then be shared with members so they have a clearer picture of which is and should be achieved
			Monthly reports to Leadership Team identifying (early) where overspends are projected so that mitigation can be taken will be implemented.

continued.....

Other recommendations

Criteria	Observation	Recommendations	Response
Financial sustainability <i>continued</i>		4. The Council should ensure it takes action to address the findings and recommendations from the Finance Peer Challenge as a matter of urgency.	The MRP policy for 2025/26 has been updated, liaising with our External Advisors. This includes undertaking an exercise to look at MRP calculations which has produced a new calculated MRP charge for all recent years considering the negative CFR as the starting position and only charging MRP from the year after construction was completed. This new calculation shows that a relatively small MRP charge of £42,519 would have been chargeable in 2022/23 – as a lot of the schemes were still under construction in 21/22 and 22/23.
		5. The Council should undertake a review of its Minimum Revenue Provision (MRP) policy and calculation to ensure it is fully compliant with the statutory requirements and guidance and that sufficient set asides are being made. Management should ensure the annual MRP adjustment is adequate and prudent, considering the Council's CFR and borrowing levels, and ensure longer term financial risks are contained.	<p>MRP review was completed March 2025 and incorporated into the outturn position for both 2023/24 and 2024/25. It will be fed into the next iteration of the MTFP for September.</p> <p>The new s151 Officer will consider and put in place actions to address the findings of the Finance Peer Review.</p> <p>The Council's Asset Management Group is reviewing all assets to determine suitability for disposal, further investigation, or retention based on criteria like use value and strategic fit. The disposal program started in October 2024, with revenue benefits expected in the 2025/26 budget, reducing the need for reserves and optimizing asset value.</p>

Other recommendations

Criteria	Observation	Recommendations	Response
Governance	<p>The previous auditor raised a recommendation for the Council to 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. The income Chief Finance Officer has implemented actions to address this recommendation which, due to the short passage of time, are currently in their infancy. We have therefore rolled forward this recommendation to 2024/25.</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>	<p>The following actions are in place:</p> <ol style="list-style-type: none"> 1. The CFO to have regular meetings with the Chief Internal Auditor to discuss audit findings where there are weaknesses identified. 2. These will also be discussed with Leadership Team as part of the Monthly meeting specifically set aside for Finance matters. 3. These will be monitored by the Operation Council (consisting of CEO, CFO and Monitoring Officer) to quickly identify any weaknesses in its governance arrangements and take necessary actions. 4. These will also be reported to Audit & Governance, where members will have an opportunity to review <p>These are being reviewed by CFO and where necessary will be discussed at the Operation Council Meetings (CEO, CFO and Monitoring Officer meetings).</p>
Improving economy, efficiency and effectiveness	<p>The Council is actively looking at asset disposals to reduce borrowing and make MRP savings. Whilst these actions, in isolation, make sense, the Council will now also need to be mindful of the Local Government Reorganisation (LGR) proposals, and in particular ensure significant asset disposals, particularly land disposals, are in the best interests of both the Council and any successor unitary body.</p>	<p>In making significant asset disposals or entering into significant long term contracts, the Council should ensure new agreements will be in the best interests of the new council(s) or the residents of the area, and do not undermine or diminish the benefits or savings anticipated as a result of unitarisation, or which may have an effect on the financial position of the new council(s).</p>	

Follow up of prior recommendations

Criteria	Recommendation	Type	Date raised	Progress to date	Addressed?	
Financial sustainability	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.	Other	2022/23 (April 2025)	The following actions are in place, and progress is underway. A clear understanding of the savings programme for 2025/26 and 2026/27 has been established and will inform discussions throughout July and August as part of the next iteration of the Medium-Term Financial Plan (MTFP). The 2025/26 savings will also be incorporated into the Quarter 1 performance report. A draft has been prepared and is currently under discussion with the Leadership Team and the relevant Portfolio Holder. These updates will be included in future quarterly and budget reports to ensure ongoing visibility and oversight.	Insufficient time has passed for this to have been considered, actioned and implemented in full.	
	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.				The Minimum Revenue Provision (MRP) policy for 2025/26 has been updated in consultation with the Council's external advisors.	Rolled forward into updated 2024/25 recommendation
	The Council should ensure it takes action to address the findings and recommendations from the Finance Peer Challenge as a matter of urgency.					
	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.					

Follow up of prior recommendations

Criteria	Recommendation	Type	Date raised	Progress to date	Addressed?
Governance	<p>The Council should take immediate action to address the following statutory recommendations:</p> <p>Finance Function Workflow Review: Conduct a comprehensive review of the finance function workflow to identify bottlenecks in the flow of information and the completion of key finance tasks. Use the findings to redefine roles and responsibilities within the finance team, ensuring an equitable distribution of workload and preventing any single individual from being overburdened.</p> <p>Quality Assurance Function Review: Implement a thorough review of the quality assurance process for draft accounts and underlying workpapers. Establish clear timelines for the closedown process, ensuring appropriate segregation of duties between those preparing and those reviewing the draft accounts and workpapers. Monitor adherence to this process and report performance to the Audit and Governance Committee.</p> <p>Finance Team Capacity: Re-assess roles, responsibilities and resource requirements for financial reporting across the Council, including an assessment of the support required from other functions within the organisation for the financial reporting function to meet its objectives and to restore timely financial reporting in accordance with the requirements of the Accounts and Audit (Amendment) Regulations 2024.</p>	Statutory	2022/23 (April 2025)	<p>A new Chief Finance Officer (section 151 officer) was appointed on 1 April 2025. Following the issuing of the disclaimed opinions for 2021/22 and 2022/23 by the predecessor auditor, the 2023/24 accounts and annual governance statement were prepared and made available for public inspection by the Council on 30 April 2025.</p> <p>Following the full Council meeting at which the statutory recommendations were considered, the 2024/25 accounts and annual governance statement were prepared and made available for public inspection on 27 June 2025. This was in compliance with the Accounts and Audit Regulations for the 2024/25 accounts.</p> <p>In addition, the Chief Finance Officer has set out a number of actions to address each of the three statutory recommendations which will be taken forward over the coming year.</p> <p>As the recommendations were only raised formally in April 2025 there is insufficient time for any of the responses to have been implemented at this date</p>	<p>Insufficient time has passed for this to have been considered, actioned and implemented in full.</p> <p>Rolled forward into updated 2024/25 recommendation</p>

Follow up of prior recommendations

Criteria	Recommendation	Type	Date raised	Progress to date	Addressed?
Governance	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.	Other	2022/23 (April 2025)	The Chief Financial Officer (CFO) holds regular meetings with the Chief Internal Auditor to review audit findings where weaknesses have been identified. These issues are also discussed with the Leadership Team during a monthly meeting dedicated to finance matters. Additionally, the Operational Council—comprising the Chief Executive Officer (CEO), CFO, and Monitoring Officer—monitors these areas to promptly identify and address any governance concerns. Finally, findings and actions are reported to the Audit & Governance Committee, giving members the opportunity to review and scrutinise them.	Insufficient time has passed for this to have been considered, actioned and implemented in full. Rolled forward into updated 2024/25 recommendation



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