# East Hertfordshire District Council

## Auditor's Annual Report

## Year ended 31 March 2025

November 2025

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# Headlines from our audit

# Headlines from our audit

## Purpose of this report

This Auditor's Annual Report provides a summary of the findings and key issues arising from our audit of the Council for 2024/25. This report has been prepared in line with the requirements set out in the Code of Audit Practice and supporting guidance published by the National Audit Office and is required to be published by the Authority alongside the annual report and accounts.

## Our responsibilities

### Financial statements

We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Authority and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the CIPFA/LASSAC Code of Practice in Local Authority Accounting ('the Code').

Due to the challenges of undertaking an audit where the previous 4 years have been disclaimed because of the local authority backstop, it will not be possible to regain full assurance over the financial statements for 2024/25. The audit is currently in progress but there will not be enough time for us to undertake sufficient work to support an unmodified audit opinion ahead of the backstop date of 27 February 2026. This is due to the limitations imposed from the lack of assurance on opening balances and closing balances in key areas. We therefore intend to disclaim our audit report.

### Narrative report and Annual Governance Statement

We assess whether the Narrative report and Annual Governance Statement is consistent with our knowledge of the Authority.

We are unable to conclude the other information included in the statement of accounts is consistent with our knowledge of the Council and Group and the draft financial statements. This is because it will not be possible to undertake sufficient audit work to reach a conclusion before the statutory backstop date of 27 February 2026.

### Value for money

We are required under Section 20(1)c of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness (value for money) in its use of resources and provide a summary of our findings in the commentary in this report.

We are required to report if we have identified any significant weaknesses as a result of this work.

As reported in previous years, there are significant weaknesses in the arrangements for securing at economy, efficiency and effectiveness in the use of resources at the Council which remained present during 2024/25. Statutory recommendations to address these weaknesses were raised in April 2025. Whilst there will have been insufficient time since then to fully implement these recommendations, we have followed up the Council's progress to date as part of our work. Further detail is provided in this report.

# Headlines from our audit

## Statutory powers

We may exercise other powers we have under the Local Audit and Accountability Act 2014. These powers include issuing a Public Interest Report, issuing statutory recommendations, issuing an Advisory Notice, applying for a judicial review, or applying to the courts to have an item of expenditure declared unlawful.

### Public interest report

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

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

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

### Statutory recommendations

We may make written recommendations to the Council under Schedule 7 of the Local Audit and Accountability Act. If we do this, the Authority must consider the matter at a general meeting and notify us of the action it intends to take (if any). We also send a copy of this recommendation to the relevant Secretary of State.

**We have rolled forward statutory recommendations from the prior year.**

### Advisory notice

We may issue an advisory notice if we believe that the Council, or an officer of the Council, has, or is about to, incur an unlawful item of expenditure or has, or is about to, take a course of action which may result in a significant loss or deficiency.
If we issue an advisory notice, the Authority is required to stop the course of action for 21 days, consider the notice and then notify us of the action it intends to take and why.

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

### Judicial review

We may make an application for judicial review of a decision of the Council, or of a failure to act by the Council, which it is reasonable to believe would have an effect on the accounts of that body.

**We did not make an application for judicial review this year.**

### Application to the court

We may apply to the courts for a declaration that an item of expenditure the Authority has incurred is unlawful.

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

# Headlines from our audit

## Findings and recommendations

### Findings from our financial statements audit

Our financial statements audit is currently in progress and due to conclude by the statutory backstop of 27 February 2026. Detailed findings from our audit of the financial statements, including our consideration of significant risks, will be communicated in the following reports:

- audit opinion on the financial statements for the year ended 31 March 2025
- draft audit completion (ISA 260) report to Those Charged with Governance

Our draft audit completion report will be reported to the Council's Audit Committee in February 2026.

**Requests for our audit completion (ISA260) report should be directed to the Council.**

### Recommendations arising from our financial statements audit

Recommendations relating to internal controls and other matters arising from our financial statements work will be contained in the audit completion (ISA 260) report.

**From our work to date, we have not identified any further recommendations relating to the financial statements audit which indicate additional significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in the Council's use of resources and, as such, would not be considered key recommendations. Should any further key recommendations be raised during the remainder of our audit work we will report these in our audit completion report and our auditor's report (opinion) in February 2026.**

### Key recommendations arising from our value for money work

We provide a summary of our findings in respect of value for money in the commentary in this report.

Where we identify significant weaknesses as part of our review of the Council's arrangements to secure value for money, we make key, or essential, recommendations setting out the actions that should be taken by the Council.

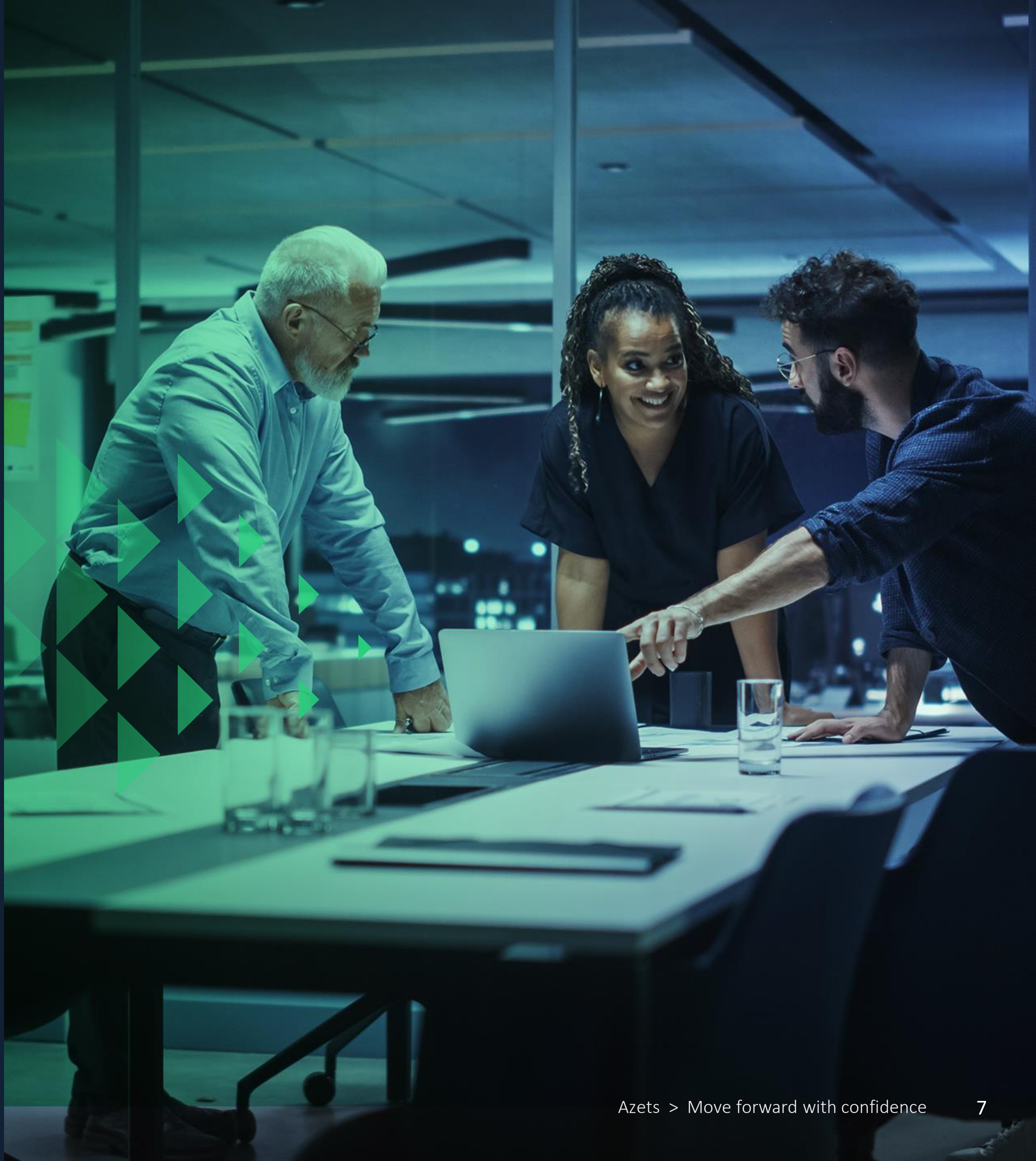
**We have followed up on the key recommendations made previously. We have not identified any additional key recommendations this year.**

### Other recommendations arising from our value for money work

We make other recommendations if we identify areas for improvement which do not relate to identified significant weaknesses

**We have raised other recommendations to support the Council's ongoing improvement and followed up on the recommendations raised in the prior year.**

# Value for money



# Value for money

## We are required to consider whether the Council has established proper arrangements to secure economy, efficiency and effectiveness in its use of resources, as set out in the NAO Code of Practice 2024 and the requirements of Auditor Guidance Note 3 (‘AGN 03’).

We have completed our value for money work. Our detailed findings are reported in the following commentary in this report.

We have concluded there are significant weaknesses in the Council’s arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor’s report will refer to the significant weaknesses in arrangements we have identified.

| Reporting criteria | Planning – risk of significant weakness identified? | Final – significant weakness identified? | Recommendations made | | |
|---|---|---|---|---|---|
| | | | Statutory | Key | Other |
| Financial sustainability<br>How the body plans and manages its resources to ensure it can continue to deliver its services | No | No | No | No | Yes |
| Governance<br>How the body ensures it makes informed decisions and properly manages risk | Yes | Yes | No | Yes | Yes |
| Improving economy, efficiency and effectiveness<br>How the body uses information about its costs and performance to improve the way it manages and delivers its services | No | No | No | No | Yes |

# Value for money

Councils are responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. This includes managing key operational and financial risks and taking properly informed decisions so that they can deliver their objectives and safeguard public money.

As auditors, we are required to consider whether the Council has established proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We performed risk assessment procedures at the audit planning stage to identify any potential areas of significant weakness which could result in value for money not being achieved. This included considering the findings from other regulators and internal auditors, reviewing records at the Council and performing procedures to gain an understanding of the high-level arrangements in place. The resulting risk areas we identified were set out in our audit plan.

For each identified risk area, we performed further procedures during our audit to consider whether there were significant weaknesses in the processes in place at the Council to achieve value for money.

The NAO Code of Audit Practice requires us to structure our commentary on VFM arrangements under three reporting criteria: financial sustainability, governance and improving economy, efficiency and effectiveness.

We have set out on the following pages our commentary and findings on the arrangements at the Council in each area.

*In addition to our financial statements work we performed a range of procedures to inform our value for money commentary, including:*

- *Meeting with management and regular meetings with senior officers*
- *Interviews as appropriate with other executive officers and management*
- *Review of Council and committee reports and attendance at audit committee meetings*
- *Reviewing reports from third parties*
- *Considering the findings from our audit work on the financial statements*
- *Review of the Council's Annual Governance Statement and Narrative Report and other publications*
- *Considering the work of internal audit and the counter fraud function*
- *Consideration of other sources of external evidence.*

# Value for money

## Overview

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. The administrative area also includes the Hertfordshire Police and Crime Commissioner and Hertfordshire Constabulary. The Council serves a population of circa 150,000 residents. The Council faces, over the medium term, growing financial challenge and increasing uncertainty over its longer-term income predictions, particularly in respect of business rates and government funding.

The Council is responsible for a range of local services, including planning, waste collection and environmental health. The Council previously 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 finance peer review undertaken in 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

The Council has also faced challenges in meeting its statutory financial reporting obligations. 2020/21 was the last year the Council received an unmodified audit opinion. It did not produce its accounts on time in 2021/22, 2022/23 or 2023/24, resulting in those accounts, when they were produced, being disclaimed under the statutory backstop legislation. The Council also failed to comply with legal requirements for publishing website notices related to accounts publication and delays. In April 2025 the predecessor auditor (at the conclusion of their 2022/23 audit) reported significant weaknesses in the arrangements to support the Council's statutory financial reporting requirements and raised three statutory recommendations. These significant weaknesses remained in place during the 2024/25 year. As required under statute, the Council considered their response to these recommendations in public at a meeting in May 2025, accepting the recommendations and directing the Audit and Governance Committee to monitor progress and implementation of the Council's response. A new, substantive Chief Finance Officer (CFO) was appointed on 1 April 2025. He is overseeing the Council's response to the recommendations and implementation of actions to mitigate the significant weaknesses.

# Value for money

Under the stewardship of the new CFO, the previously delayed 2023/24 accounts were published on 30 April 2025 and the 2024/25 accounts were published, on time, on 27 June 2025. This latter action meant the Council had returned to producing draft financial statements on time for the first time in 4 years.

With the publication of the delayed 2023/24 accounts on 30 April 2025, two months later than the statutory backstop date for 2023/24 of 28 February 2025, as auditors we concluded our work during July to September 2025, reported the audit to the Audit and Governance committee on 30 September 2025 and issued a disclaimer of opinion for the 2023/24 statements on 1 October 2025. At the same time we reported our value for money findings within our Auditor's Annual Report for 2023/24. During this period we also undertook work on the 2024/25 audit year and financial statements although the lack of assurance from previous years over opening balances, combined with the delays from previous years which reduced audit capacity within the 2024/25 window, means we will not be able to recover sufficient assurance to remove the disclaimer of opinion in 2024/25. We therefore anticipate disclaiming our opinion in line with the forthcoming backstop date of 27 February 2026. This will mean the Council will have fully recovered the previous years' delays and once again be in line with the rest of the sector in terms of the timeliness of reporting.

At the 30 September 2025 Audit and Governance meeting we also reported to Members the plans for recovering the disclaimed position over 2024/25 to 2027/28, in line with the statutory guidance issued by MHCLG. This is an ambitious objective and will require significant resource and capacity investment from the Council, together with the full implementation of responses to the statutory recommendations previously raised. We have considered the progress made in that respect as part of this report.

Like all councils and the wider local government sector, East Hertfordshire District Council also continues to face wider 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 signalled an intention to return to multi-year settlements in the future and announced a national overhaul of local government, reorganizing multi-tier council areas into a series of unitary authorities with devolved powers at a regional, mayoral level. The changes proposed would impact East Hertfordshire District Council which, like all districts with Hertfordshire, would be absorbed into one or more larger unitary councils from 1 April 2028 according to the current planned timescales. Work is currently ongoing to present options for reorganization in response to government requirements.

High inflation over recent years has increased cost pressures on all councils' revenue and capital expenditure, indicating reduced certainty about what the future may hold, economically. High interest rates have provided the Council with fortuitously higher than expected interest income on cash balances, but the combination of higher inflation – which remains persistently higher than target at 3.8% – and higher interest rates impacts local communities, including the community the Council serves in Hertfordshire. This can lead to increases in demand for council services and impact on council income in areas such as car parking and collection rates for council tax, business rates and rents.

East Hertfordshire District Council has arrangements in place to mitigate the macro-risks posed by the national context and, at present, a reasonable level of general fund reserves. However, these could be significantly depleted over the next few years if macro-economic conditions are unfavourable and the uncertainty inherent in the Council's cost and income assumptions do not crystallise in the Council's favour.

# Value for money

## Local government reorganisation

On 5 February 2025 the Minister for State for Local Government and English Devolution asked all councils in two-tier areas to develop unitary proposals, which will bring together upper and lower tier local government services in new unitary councils. Hertfordshire is in the third wave of reorganisation. Final detailed proposals are to be submitted in September 2025, with the potential establishment of a shadow Council in May 2027 and the transition to the unitary authority in April 2028, marking the cessation of the existing councils in Hertfordshire.

This means the next few years will be ones of significant change and uncertainty. Councils will need to consider the risk of the loss of key individuals and corporate memory in the lead-up to and transition into the new unitary authority. There may be an incentive for more short-term decision making in respect of the use of reserves and concerns, where reserves have been built up over previous years, either via strong management or for the implementation of a particular redevelopment scheme, that these reserves may end up being repurposed to cover an overspend incurred by a successor body. Whilst Authorities retain powers to make some spending decisions in advance of the reorganisation, it is important to make sure that proper governance arrangements remain in place, and that due consideration is given to any schemes which are likely to run beyond the date of transition to the new body.

Transition and reorganisation on this scale will require significant management time to ensure the benefits are identified and plans are in place to realise them post-transition. It may also require experience and skill-sets outside of the 'business as usual' skills and experience in place at the Council. It will be important for the Council to assess the skills it has in place, identify any gaps and take steps to mitigate those gaps to reduce risks arising during or post transition. Plans and arrangements for reorganisation will utilise increasing capacity of senior officers and this may divert attention from the realisation of savings plans or make the achievement of previously planned savings less likely. Such risks will need to be incorporated into updated medium term financial plans.

Members, and in particular audit committee members, will need to be satisfied that where earmarked reserves are being utilised, they are being utilised for their intended purpose and that reserve balances remain at an appropriate and prudent level, as well as be satisfied that balanced budgets continue to be set up to and including the Council's final period of account, in line with the statutory duties placed on key staff. Effective governance and stewardship will remain key, particularly in the operation of the audit committee, delivery of internal audit and execution of the risk management process.

The Council is also actively looking at asset disposals to reduce borrowing, make MRP savings and strengthen the Council's financial position. 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.

# Value for money

For East Hertfordshire, this reorganisation into unitary authorities could streamline service delivery, reduce duplication and improve long-term financial sustainability. Government believes there are substantial financial benefits and savings to be made, although these would depend on the exact configuration arrived at. However, any reorganisation of this scale brings significant risk and uncertainty. The Council recognises that transformation costs and service continuity risks must be managed effectively. The transition will require careful planning, particularly around the disaggregation of legacy financial systems reserves, and service responsibilities. The complexity of the reconfiguration is compounded with several significant income strip schemes across Hertfordshire and a substantial volume of large and significant ongoing capital investment and regeneration capital schemes.

# Value for money: financial sustainability

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

*We considered the following areas:*

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

### General fund

At 31 March 2025 the Council's general fund stood at £3.9m, unchanged from the general fund balance at 31 March 2024 of £3.9m. However, the level of earmarked reserves decreased during the year from £22m to £17.3m, meaning the overall level of usable general fund reserves available to the Council now stands at £21.2m, compared to £26m a year ago. This remains a reasonable level of reserves; the Council's net expenditure on services in 2024/25 was £17.2m and this level of reserves provides a buffer for unexpected short-term shocks.

However, whilst earmarked reserves can be utilised if Members decide to change their use, they are earmarked for specific purposes in anticipation of specific costs. The general fund balance of £3.9m as at 31 March 2025, whilst currently healthy and above the Council's minimum level of £2.2m, is the true reserve for 'unanticipated' cost pressures.

whilst earmarked reserves can be utilised if Members decide to change their use, they are earmarked for specific purposes in anticipation of specific costs. £11m of the £17.3m earmarked reserves are held for two specific purposes: New Homes Bonus priority spend (£5.9m, declining from £8.9m in 2023/24) 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. £3m of this reserve was transferred out in 2024/25. 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 £6.3m of the earmarked reserves are available to manage financial risk. Of this, the most significant reserve is the interest equalisation reserve (£1.6m), established to assist the Council in managing the financial implications of adverse interest rate fluctuations. The Council also holds an additional General Reserve of £1m, which supports cash flow management and provides contingency funding. £1.8m of these reserves, collectively, was also utilised in 2024/25, reducing the financial 'cushion' these earmarked reserves provide to the Council's overall financial resilience.

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.

# Value for money: financial sustainability

## Medium term financial strategy

The Council's assumptions in its financial strategy are not unreasonable, but there is risk attached to them. The strategy assumes pay increases of 3% in 2025/26, and 3% per annum thereafter. It assumes general inflationary increases of 2% in 2025/26 and 2% thereafter. The risk remains that the anticipated reduction in inflationary pressures in the later years fails to materialise. Higher inflation – which has been resistant to falling below 3.8% nationally – would place increased pressure on pay budgets, potentially offsetting the expected moderation in pay inflation from 2025/26 onwards.

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. The MTFP focuses on financial sustainability and alignment with corporate priorities. It also shows planned contributions to reserves totalling £4.7m, supporting long-term resilience.

East Hertfordshire District Council has arrangements in place to identify significant financial pressures for its short- and medium-term plans. It sets its annual budget and updates its 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. This image confirms that monthly monitoring is conducted by senior management, with quarterly reporting to the Executive and further scrutiny by the Audit and Governance Committee.

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. This image breaks down the five key building blocks of the revenue budget: net cost of services, use of reserves, corporate budgets, sources of funding, and Council Tax providing a clear visual of how the budget is structured.

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.

# Value for money: financial sustainability

The annual financial plan and budget, presented around February or March time, 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.

## Savings Programme

The Medium-Term Financial Plan (MTFP) for 2025/26 to 2034/35 outlines a structured and proactive approach to achieving financial sustainability through a blend of operational efficiencies and strategic savings. The Council has implemented a series of savings under officer delegation, totalling £1.6m in 2025/26 and increasing to £2.1m annually from 2027/28 onwards. These savings are derived from measures such as senior management restructuring, shared revenues and benefits service reviews, contractual changes, vacancy management and transformation initiatives. In parallel, the Executive has approved additional savings and income generation proposals amounting to £1.8m in 2025/26, which include both previously agreed items and new proposals such as increased garden waste charges, property disposals and reductions in community grants and member training budgets. These strategic savings are essential to addressing the projected budget gaps, particularly the shortfall of £1.7m in 2026/27 and £0.9m in 2027/28, with further pressures anticipated in later years. The plan also includes income generation measures such as a £10 increase in garden waste charges, contributing £300k annually from 2025/26 onwards. The savings programme reflects the Council's commitment to managing financial risks while maintaining core service delivery.

## Performance of savings against budget

The Council's savings performance in 2024/25 shows a mixed picture, with some savings successfully delivered and others falling short of expectations. The original budget for the year anticipated a net cost of services of £17.2m. The actual outturn was £18.9m, an overspend of £1.7m.This variance reflects both underachievement of planned savings and emerging cost pressures.

Several savings initiatives were not fully realised. For example, the Senior Management Restructure was expected to deliver £0.25m in savings, but only £0.06m was achieved, a shortfall of £0.2m. Similarly, the ban on overtime payments was overestimated, with only £0.04m saved against a target of £0.2m. Other planned savings, such as avoidable contacts, Wallfields rental income, and advertising on assets, were delayed or not implemented, contributing further to the gap.

On the positive side, some areas did outperform expectations. The waste service delivered a significant underspend of £0.6m, driven by lower-than-expected contract inflation and higher income from recyclable materials. Parking income also exceeded forecasts, contributing an additional £0.2m. Additionally, Housing Benefits and IT services delivered underspends due to budget overstatements and recruitment delays respectively. Transformation-related costs, including staff restructuring, added £0.16m in one-off expenditure, while unexpected liabilities such as NNDR revaluations for Wallfields and car parks added £0.3m in pressure. The BEAM theatre project also incurred a substantial overspend of £1.5m, largely due to delayed opening, underestimated business rates and additional security costs.

# Value for money: financial sustainability

Overall, while some savings were achieved and certain services delivered efficiencies, the Council faced challenges in fully implementing its savings programme. The shortfall against budgeted savings, combined with emerging cost pressures, underscores the importance of robust delivery planning, realistic forecasting, and contingency measures in future financial strategies.

The 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 progress in responding to these recommendations to date and 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. The Council is reporting 10 out of 14 of the actions as completed. Key areas addressed include budget reporting, where savings figures have been reconciled and their future impact clarified. Risk schedules continue to be embedded in quarterly monitoring and budget reports. Delegated savings and options have been discussed and documented and a comprehensive business case for BEAM commercialisation has been produced and integrated into the Medium-Term Financial Plan (MTFP). Capital programme reviews continue to be conducted quarterly to assess dependencies and reduce reliance on borrowing. However, some actions remain ongoing, including the publication of a statement on usable reserves and the establishment of a performance metrics group involving officers and Executive members.

The MTFP assumes the savings targets will be achieved in full to avoid further reliance being placed on in-year use of general fund and earmarked 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. 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

# Value for money: financial sustainability

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.

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.

## Capital programme

When preparing the Medium-Term Financial Plan (MTFP), the Council also plans its capital programme to ensure that capital investment aligns with service priorities and is financially sustainable. The 2025/26–2034/35 capital programme reflects a more restrained approach compared to previous years, following the completion of major schemes and reflecting the reality of slippage incurred in previous years which meant the budgeted programme was not delivered (see below). The programme has been carefully constructed by the Leadership Team to represent the maximum level of investment that remains affordable within the Council’s Capital Financing Requirement, with no scope for additional unfunded schemes. In 2025/26, planned capital expenditure totals £10.5m, with significant allocations for vehicles and equipment (£8.3m), land and buildings (£1.5m), and transformation projects (£0.5m). Funding sources include external borrowing (£7.9m), capital receipts (£1.4m), and Section 106 contributions (£1.2m). The Council has also received a £1.2m Section 31 grant from DEFRA to support the purchase of food waste bins and collection vehicles, with the remaining costs covered by borrowing and receipts. From 2027/28 onwards, capital investment will focus solely on operational assets and IT infrastructure, both of which are under review and will be addressed in future budget cycles. The Council is also actively reviewing asset disposals to reduce borrowing costs and future Minimum Revenue Provision (MRP) charges, noting that each £1m of borrowing incurs a revenue cost of at least 8%.

## Capital Outturn for 2024/25

The Council’s capital programme for 2024/25 significantly underperformed against its revised budget, which was also the case in previous years. Of the £19.1m allocated only £7.1m was spent, resulting in an underspend of £12.1m and a carry forward of £9.3m into future years. This equates to a delivery rate of just 37%, indicating substantial delays and slippage across multiple projects. The most notable underspend was in the Refuse & Recycling Vehicles and Containers budget, where none of the £9.7m allocation was utilised, accounting for over half of the total underspend and reflecting delays in the procurement and implementation of the new waste contract. Similarly, the full £0.7m budget for Buntingford Depot remained unspent, likely due to the same contract-related issues. Other projects such as Old River Lane and Arts Centre, Hostels, URC Church Hall, and Pinehurst Community Hall also saw no capital activity, contributing to a combined underspend of £1m. Partial delivery was achieved in operational asset investment (£0.25m) and the Hertford Theatre (BEAM) redevelopment (£4.5m), though both fell short of their respective budgets.

# Value for money: financial sustainability

On a more positive note, projects funded through the UK Shared Prosperity Fund including Buntingford Public WC, Sports Equipment, Air Quality Website, and Tree Planting were fully delivered, and good progress was made on Bridges, Castle Park, and Hertford Castle Grounds. The large volume of unspent capital, particularly in high-value operational and waste-related projects, suggests challenges in project mobilisation, procurement, or contractor engagement. The Council will need to reassess timelines and delivery mechanisms to ensure the effective utilisation of the £9.3m carried forward into 2025/26. Additionally, the approved but not yet committed capital budget of £4.2m, including the £2.5m Transformation Programme, adds further pressure on future delivery capacity.

## The Group position

East Hertfordshire District Council wholly owns Millstream Property Investments Ltd, which was established 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, with the assurance that the accommodation is managed by a responsible landlord.

Based on Millstream Property Investments Ltd's financial statements for the year ended 31 March 2024, the company remains in a position to meet its liabilities without requiring intervention from East Hertfordshire District Council, with net assets standing at £2.2m. The audit opinion for the year ended 31 March 2024 was unqualified, with auditors confirming that they had not identified any material uncertainties that would cast significant doubt on the company's ability to continue as a going concern for at least twelve months following the authorisation of the accounts.

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 identified 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 subsidiary financial statements for the year ended 31 March 2025 are yet to be audited, and the Council's group accounts reflect unaudited figures for Millstream for that period.

# Value for money: financial sustainability

## The Minimum Revenue Provision

The Council is required each year to set a Minimum Revenue Provision (MRP). The MRP refers to the amount charged to the revenue budget for the repayment of debt, based on the underlying need to borrow rather than the actual debt held. This underlying debt is necessary to finance the capital programme. Capital expenditure generally relates to assets with a life expectancy of more than one year, such as buildings, vehicles, and equipment. It is therefore prudent to charge an amount for the repayment of debt over the life of the asset, or a similar proxy, allowing borrowing to be matched to asset life. Setting aside funds for debt repayment in this way enables future borrowing to finance asset replacement without incurring additional cost. The method of spreading these costs is through an annual Minimum Revenue Provision, and it is therefore important that the MRP is sufficiently prudent to mitigate long-term financial sustainability risks. A prudent MRP policy ensures that the Council sets aside adequate resources to repay borrowing over time, thereby reducing future financial pressure.

Following consultation, MHCLG have clarified and updated the regulations and the statutory guidance for minimum revenue provision. Although these take full effect from April 2025, the consultation highlighted that the intention was not to change policy but to clearly set out in legislation the practices that authorities should already be following. This guidance clarifies that capital receipts may not be used in place of a prudent MRP, that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted from the calculation unless exempted by statute.

The Council has a statutory duty under the Local Government Act 2003 to ensure its MRP is prudent. Indicators of prudence can be assessed by comparing the MRP to the Council's Capital Financing Requirement (CFR) and total borrowings and comparing the total borrowings to the CFR. An MRP level below 2% of the CFR and 3% of total borrowings may indicate increased financial risk. Where total borrowings exceed the CFR, this also indicates reduced financial headroom.

In 2024/25, the Council's Minimum Revenue Provision (MRP) remains at 1% of both total borrowing and the Capital Financing Requirement (CFR), below the benchmarks of 3% and 2%, respectively raising concerns about long-term financial resilience. This was also the case in 2023/24. In addition, borrowing is 106% of the CFR, indicating the Council is overextended on its borrowing with minimal financial headroom. These ratios indicate, as at 2024/25, financial strain. In our previous report we recommended the Council consider the appropriateness of the annual charge as it risked being insufficient to negate longer term financial resilience risk.

The Minimum Revenue Provision (MRP) policy for 2025/26 has been updated in consultation with the Council's external advisors. The MRP charge is anticipated to double from its 2024/25 level. The revised MRP for 2025/26 is £1.431m, rising to £1.453m in 2026/27. When considered against the opening CFR for 2025/26, this would result in a ratio of 2.3% (above the prudential benchmark of 2%) and would reflect 2.2% of borrowing as at 31 March 2025 (remaining below the prudential benchmark of 3%). However, if borrowing is repaid and not refinanced, this would improve the position and would also reduce borrowing below the level of the CFR.

# Value for money: financial sustainability

We have used the following figures in assessing the prudence of the MRP for 2024/25, taken from the 2024/25 draft financial statements.

- Opening CFR £60.9m
- General Fund borrowing £64.5m
- MRP (2024/25) £0.751m; (2025/26) £1.431m
- Total general fund and earmarked reserves £21.2m
- Net cost of services 24/25 £32.5m
- Gross service revenue expenditure 24/25 £80.4m
- Long term borrowing £64.5m
- Long term assets £131.3m

Overall, whilst MRP as a percentage of the opening CFR will increase above 2% in 2025/26, further action may be needed to further strengthen longer term financial resilience, primarily the repayment of debt so total borrowing no longer exceeds the CFR. This would improve 'headroom' for financial resilience purposes and reduce the risk the Council is over indebted.

Management should continue to review the MRP annually to ensure it remains adequate and prudent in relation to both the CFR and borrowing levels, helping to mitigate long-term financial risks. In particular, management should ensure the MRP charge is sufficiently prudent and ensure MRP is being provided on assets over a period that does not exceed, on average, a period of 50 years.

| | Council's ratios | Expectation | Evaluation |
|---|---|---|---|
| MRP as % of total borrowing | 1.2% (24/25)<br>2.2% (25/26) | < 3% then this may indicate a higher risk of MRP being insufficient to secure longer term financial resilience | |
| MRP as % of Capital Financing Requirement (CFR) | 1.2% (24/25)<br>2.3% (25/26) | < 2% then this may indicate a higher risk of MRP being insufficient to secure longer term financial resilience. | |
| Debt as a proportion of CFR | 106% | >50% then this may indicate a higher risk of the Council being over-indebted | |
| Total general fund and earmarked reserves as a proportion of net cost of services | 65% | the lower the proportion, the greater the risk to financial resilience | |
| General fund and earmarked reserves as a percentage of gross service revenue expenditure | 26% | the lower the percentage, the greater the risk to financial resilience | |
| Long term borrowing as a proportion of long term assets | 49% | the higher the proportion, the greater the risk the council is over indebted | |

# Value for money: financial sustainability

## Local government reorganisation

With local government reorganisation planned to take place in just over two years, but with little certainty over what the future reorganisation will look like, there is a growing uncertainty over the long-term plans. This makes it harder for the Council to consider the longer-term financial position. In the short term, members will need to ensure that their current decisions take into account, as far as possible, the needs of the future unitary body into which East Hertfordshire will be absorbed and ensure that, on transition, the Council's financial resilience is as strong as possible to ensure the emerging organisation commences its life on a robust financial footing. We have raised recommendations this year focused on this aspect, to support the Council in its journey to reorganisation.

## Progress on Prior year recommendations

Recommendations were raised in our previous report, issued in September 2025, and in the predecessor report issued in April 2025. As part of the 'catch-up' process to return the Council to the national statutory timelines, reports covering 2021/22, 2022/23, 2023/24 and 2024/25 have all been issued during 2025. Due to the short passage of time between the previous Auditor's Annual Reports 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 against all the recommendations, and this is set out in more detail in the "Follow up of prior recommendations" section later in this report.

## Summary

We have not identified any significant weaknesses in the arrangements in place to support financial sustainability. However, short-term financial risks remain, which could potentially introduce significant weaknesses in future years. The Council has made commendable progress in addressing prior year recommendations, and progress is where we would have expected, given the timeframes.

The Council has arrangements in place to plan and manage its resources to ensure it can continue to deliver its services. It has a good understanding of its financial position and the risks inherent in the forward-looking MTFP. It has a capable, experienced and informed management team who demonstrate a good understanding of the current position and future financial challenge. Arrangements in respect of financial planning, budget setting and control are in place and operating effectively.

However, there are indicators of financial strain and 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 significantly increase in future years. The Council is cognisant of the fact it will need to strengthen the arrangements in place to monitor, deliver and report on savings requirements and ensure the reserves strategy is fully aligned with financial risk. Reducing the current high levels of borrowing is also important to provide additional financial headroom for any unforeseen financial pressures to come.

# Value for money: governance

## This relates to the arrangements in place for overseeing the Council's performance, identifying risks to achievement of its objectives and taking key decisions.

*We considered the following areas:*

- *how the Council monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;*
- *how the Council approaches and carries out its annual budget setting process;*
- *how the Council ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;*
- *how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and*
- *how the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests) and for example where it procures or commissions services.*

### Risk Management and Governance

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.

# Value for money: governance

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.

## Procurement and Partnerships

Procurement at East Hertfordshire District Council is governed by clear procedures that ensure compliance with the Procurement Act 2023, internal policies, and relevant legislation. Defined thresholds guide public sector purchasing, with procurements above these thresholds advertised via the Find a Tender service. The Council is committed to transparency, fairness, and achieving value for money, with procurement performance monitored through regular budget reviews and reported quarterly to the Leadership Team. Officers receive training to support compliance, and services across the Council can access specialist support from the Procurement Team. Sustainability, social value, and risk management are embedded throughout the procurement cycle, alongside efforts to engage local suppliers and encourage innovation. These principles align with the Council’s corporate priorities and reflect its ongoing commitment to continuous improvement in procurement practices.

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 <u>is</u> 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.

# Value for money: governance

## Internal Audit opinion

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 'Reasonable assurance' on financial systems, meaning there is a generally sound system of governance, risk management and control in place. While some issues, instances of non-compliance, or areas for improvement were identified, they are not considered significant enough to undermine the overall control environment. The opinion is based on 21 audits conducted during the year, with 13 receiving Substantial Assurance, 5 Reasonable Assurance, and 1 Limited Assurance. The Limited Assurance finding was specific to premises licensing and did not materially affect the overall conclusion. The internal audit function was confirmed to be independent, adequately resourced, and compliant with the Global Internal Audit Standards (GIAS), with no high-priority recommendations outstanding. Minor areas for improvement were identified through a self-assessment and will be addressed in the following year.

In the prior year, we carried forward a recommendation from the predecessor auditor advising the Council to ensure that actions are taken promptly to address weaknesses identified by Internal Audit, to provide assurance over the adequacy of its governance arrangements. In response, the Director of Finance has implemented a few measures to strengthen governance. These include regular meetings between the Chief Finance Officer (CFO) and the Chief Internal Auditor to review audit findings and address any identified issues; monthly Finance meetings with the Leadership Team to discuss key financial and governance matters; oversight by the Operational Council comprising the Chief Executive, Deputy Chief Executive, CFO, and Monitoring Officer, to ensure timely action on governance risks; and regular reporting to the Audit and Governance Committee to facilitate effective member scrutiny and oversight. The latest internal audit report does not note any high-priority recommendations outstanding.

## Local government reorganisation

The next few years are expected to bring considerable change and uncertainty. Councils will need to carefully manage the potential loss of key personnel and institutional knowledge as they prepare for and transition into the new unitary authority. This period may also encourage more short-term decision-making, particularly regarding the use of financial reserves. There is a risk that reserves accumulated through prudent financial management or earmarked for specific redevelopment projects could be redirected to cover overspending by the successor authority. Although councils retain the authority to make certain spending decisions ahead of the reorganisation, it is essential that robust governance arrangements remain in place. Any initiatives likely to extend beyond the transition date must be thoroughly evaluated to ensure continuity and accountability.

Managing a transition of this scale will demand significant leadership capacity to identify potential benefits and develop strategies to realise them after the reorganisation. It may also require expertise beyond the council's usual operational capabilities. Therefore, it is crucial for the council to assess its current skill set, identify any gaps, and take proactive steps to address them, thereby minimising risks during and after the transition. Additionally, the demands of planning and implementing the reorganisation will place increasing pressure on the capacity of senior officers, potentially diverting focus from delivering existing savings plans. This could jeopardise the achievement of previously forecasted savings. These risks should be reflected in updated medium-term financial plans.

# Value for money: governance

## Governance weaknesses in financial reporting compliance

In April 2025 significant weaknesses were reported in the Council's arrangements for the preparation and publication of financial statements. This was due to the non-preparation and delayed publication of the financial statements for 2021/22, 2022/23 and 2023/24 and the absence of the 2021/22 Annual Governance Statement, as well as the absence of statutory notices on the Council's website informing the public of the delays. These delays constituted non-compliance with several provisions of the Accounts and Audit Regulations 2015.

Statutory recommendations were raised in three key areas: Finance function workflow; Quality Assurance; and Finance team capacity. Whilst there was never an expectation that such significant recommendations would have been completed and embedded within a six month time period, the Council has responded to these recommendations and continues to take steps to identify and implement appropriate mitigation strategies. We set out in more detail progress to date in in the "Follow up of prior recommendations" section later in this report.

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. Compounding this, additional capacity will be required to facilitate the extra work necessary to build back assurance and return the Council to clean opinions by 31 March 2028.

The recommendations were reported in April 2025 and therefore the significant weaknesses to which they relate were present during the 2024/25 audit year. We will follow up progress in our 2025/26 work and assess the extent to which these significant weaknesses have been addressed.

## Summary

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

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 raised one new recommendation in respect of the preparation of financial statements and one in respect of the forthcoming local government reorganisation.

# Value for money: improving economy, efficiency and effectiveness

## This relates to how the Council seeks to improve its systems so that it can deliver more for the resources that are available to it.

*We considered the following areas:*

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

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, as set out on the next page

# Value for money: governance

- 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.
- 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.

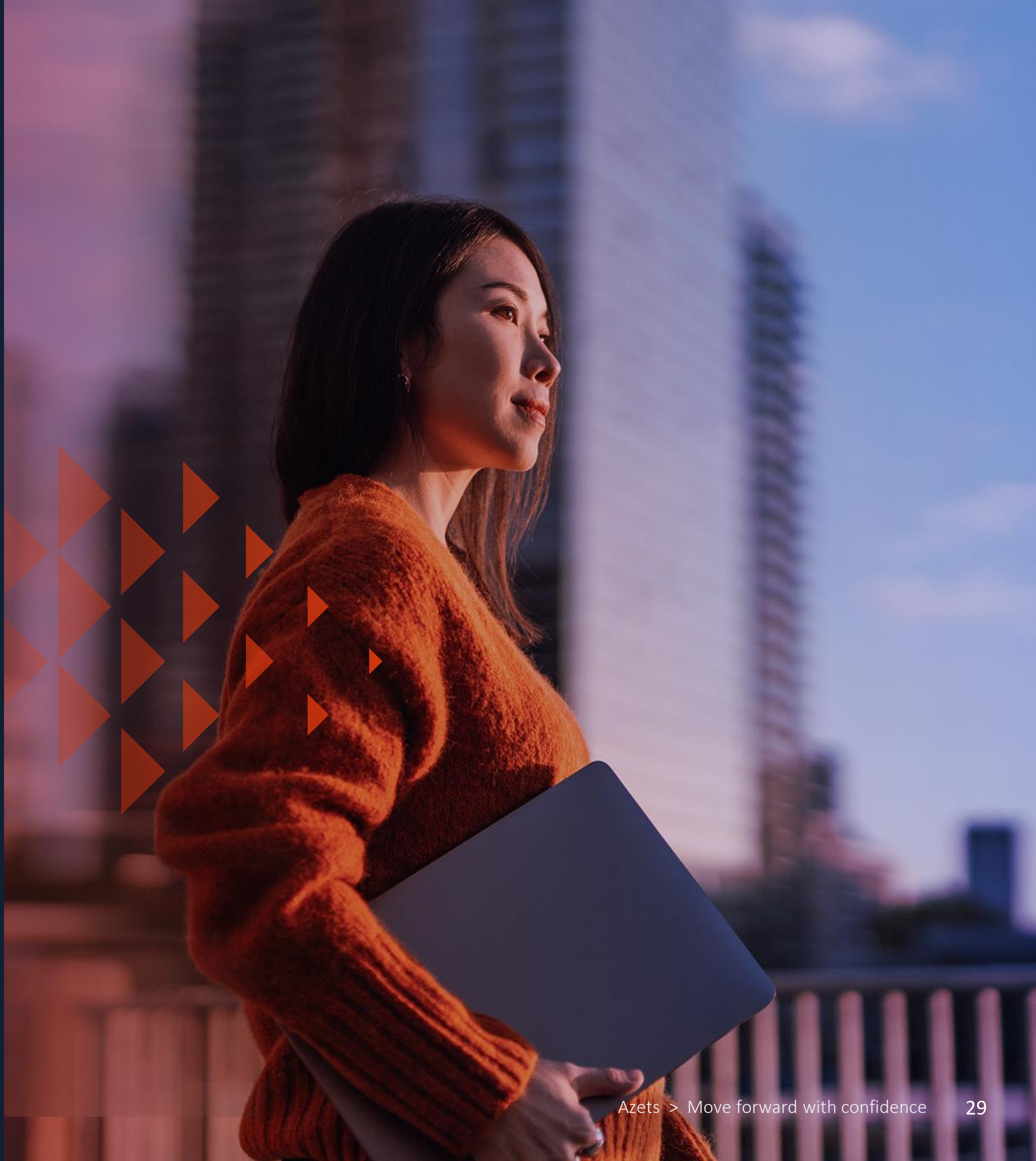
The Council has now significantly reduced its capital programme and paused £9.6m of capital spend. Management's recent responses have been appropriate and the latest forecast for the leisure centre is that the Council hopes to generate circa £0.26m in income per annum from the current arrangement. The 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.

# Recommendations



# Value for money: Key recommendations

The significant weaknesses and key recommendations we made in the previous year are set out below, together with progress and actions taken by the Authority in 2024/25 to address them. Our detailed commentary is set out in this Auditor's Annual Report. As the recommendations were only raised formally in April 2025 there is insufficient time for any of the responses to have been fully implemented at this date. Notwithstanding this, management has been proactive in responding to the recommendations. Recommendations are numbered from 1 to 15 before each recommendation for ease of reference.

| Observation previously reported | Criteria | Recommendation previously made | Auditor update 2024/25 |
|---|---|---|---|
| **Statutory financial reporting**<br>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. | Financial sustainability | **Finance function workflow review**<br>1. 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. Although the finance structure is still under | A review of the finance structure is currently underway, aimed at reducing dependency on specific individuals and addressing operational bottlenecks. Input has been provided by the Interim CFO (in March), the current CFO, Brian Moldon, and the Interim Group Accountant to inform the process with insights into effective working practices and structures from comparable authorities. The distribution of roles and responsibilities is being clarified within the proposed structure.<br><br>This work remains in progress and as such the recommendation remains open.<br><br>*continued.....* |

# Value for money: Key recommendations

| Observation previously reported | Criteria | Recommendation previously made | Auditor update 2024/25 |
|---|---|---|---|
| Statutory financial reporting<br>*continued from previous page* | Financial sustainability | Quality assurance function review<br>2. 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. | The quality assurance process has commenced. A timetable for the 2025/26 closedown process is in place and will be reviewed by the end of January to ensure it remains fit for purpose. Further enhancements to the review process are being considered, including the introduction of formal review checks to ensure appropriate segregation of duties; specifically, that working papers prepared by one individual are independently reviewed by another. Weekly meetings will be held throughout the closedown period to monitor progress and maintain oversight. The 2024/25 financial statements were published on time and in line with the Accounts and Audit (Amendment) Regulations 2024.<br><br>Work remains in progress and as such the recommendation remains open.<br><br>*continued……* |

# Value for money: Key recommendations

| Observation previously reported | Criteria | Recommendation previously made | Auditor update 2024/25 |
|---|---|---|---|
| Statistical financial reporting<br>*continued from previous page* | Financial sustainability | Finance team capacity<br>3. 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.<br><br>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. | Monthly meetings have been established between the Chief Finance Officer, Deputy Chief Finance Officer and the Leadership Team to focus on the Council's financial requirements. Roles within the Finance Team are currently under review as part of a broader restructure. This review aims to distribute workload more evenly across the team and ensure that high-risk areas are appropriately resourced, allowing sufficient capacity to concentrate on key priorities during critical periods.<br><br>There is progress; however, implementing this recommendation is key if the Council is to continue to produce accounts on time and, moreover, have sufficient capacity to facilitate the annual audit and the additional audit work required to build back assurance and lift the disclaimer by 2028. During 2025 we continued to experience delays in obtaining information to support audit progress.<br><br>Work remains in progress and as such the recommendation remains open. |

# Value for money: Other recommendations

The other recommendations made this year are set out below. Our detailed commentary is set out in this Auditor's Annual Report.

| Observation | Criteria | Other recommendation |
|---|---|---|
| **Financial resilience and local government reorganisation**<br>With local government reorganisation planned to take place in just over two years, Members should ensure their plans are in the best interests of the new council(s) and the residents of the reorganised area, and do not undermine or diminish the benefits or savings anticipated as a result of unitarization. | Financial sustainability | 4. Members should ensure their plans are in the best interests of the new council(s) and the residents of the reorganised area, and do not undermine or diminish the benefits or savings anticipated as a result of unitarization. Members will need to ensure that their current decisions take into account, as far as possible, the needs of the future unitary body and ensure that, on transition, the Council's financial resilience is as strong as possible to ensure the emerging organisation commences its life on a robust financial footing.<br>5. Members should consider whether there are further actions that could strengthen the position to ensure the new unitary body commences its life in as strong a position as possible to support the residents and businesses of the unitary area.<br>6. Members, and in particular audit committee members, will need to be satisfied that where earmarked reserves are being utilised, they are being utilised for their intended purpose and that reserve balances remain at an appropriate and prudent level, as well as be satisfied that balanced budgets continue to be set up to and including the Council's final period of account, in line with the statutory duties placed on key staff |

# Value for money: Other recommendations

| Observation | Criteria | Other recommendation |
| --- | --- | --- |
| **Local government reorganisation: capacity and skills**<br>The next few years will be ones of significant change and uncertainty. Councils will need to consider the risk of the loss of key individuals and corporate memory in the lead-up to and transition into the new unitary authority. Transition and reorganisation on this scale will require significant management time to ensure the benefits are identified and plans are in place to realise them post-transition. It may also require experience and skill-sets outside of the 'business as usual' skills and experience in place at the Council. It will be important for the Council to assess the skills it has in place, identify any gaps and take steps to mitigate those gaps to reduce risks arising during or post transition. Plans and arrangements for reorganisation will utilise increasing capacity of senior officers and this may divert attention from the realisation of savings plans or make the achievement of previously planned savings less likely. Such risks will need to be incorporated into updated medium term financial plans. | Governance | 7. The Council should assess the skills and capacity it has in place to support local government reorganisation, identify any gaps and take steps to mitigate those gaps to reduce risks arising during or post transition. |
| **Capital programme**<br>The Council's capital programme for 2024/25 significantly underperformed against its revised budget. Of the £19.1m allocated only £7.1m was spent, resulting in an underspend of £12m and a carry forward of £9.3m into future years. This equates to a delivery rate of just 37%, indicating substantial delays and slippage across multiple projects This slippage indicates potential weaknesses in the capital planning arrangements, resulting in a reprofiling of large project spend carried forward into the 2025/25 financial year. | Financial sustainability | 8. The Council should ensure it understands the reason for this slippage in the capital programme and implement actions to strength capital programme and budget forecasting and implementation. |

# Value for money: follow up of prior recommendations

The other recommendations we made in our 2023/24 report are set out below, together with progress and actions taken by the Authority in 2024/25 to address them. Our detailed commentary is set out in this Auditor's Annual Report. Given the limited amount of time between our previous report and this report, it would be unreasonable to expect all recommendations would have been addressed in the five-month window. Notwithstanding this, management has been proactive in responding to the recommendations.

| Observation previously reported | Criteria | Recommendation previously made | Auditor update 2024/25 |
|---|---|---|---|
| **Financial resilience risks**<br>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.<br>*continued….* | Financial Sustainability | **Reserves**<br>9. 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. | The latest Medium Term Financial Plan (MTFP) presented to the Executive in October initiated a comprehensive review of all reserves. This includes identifying the purpose and necessity of each reserve to ensure alignment with the Council's financial strategy and risk profile. In parallel, further work is underway to assess the minimum level of balances required to manage ongoing financial risks. This assessment is being led by the Chief Finance Officer (CFO), who has provided an initial view within the MTFP. This will be further reconsidered as part of the budget report to determine the adequacy of current reserve levels in light of the Council's financial risks and the scale of savings required. The outcome of this review will be incorporated into the forthcoming budget report, alongside a formal position on reserves. This will also form part of the CFO's Section 25 report, ensuring that Members are fully informed of the financial resilience of the Council and the sufficiency of reserves to manage unexpected pressures.<br><br>Work remains in progress and as such the recommendation remains open. |

# Value for money: follow up of prior recommendations

| Observation previously reported | Criteria | Recommendation previously made | Auditor update 2024/25 |
|---|---|---|---|
| Financial resilience risks<br>*continued from previous page* | Financial Sustainability | Savings plans<br>10. 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. | The Leadership Team has reviewed all savings plans for 2025/26 and future years, which were incorporated into the February 2025 MTFP. An updated position on in-year savings has been assessed and included in the Quarter 1 monitoring report. Where savings could not be justified for the current year or across the MTFP period (to 2030/31) these have been removed and reflected in the MTFP presented to the Executive in October 2025. In Quarter 1 of 2025/26 the Council reported a forecast overspend of £0.9m against a net cost of services budget of £15.9m. The savings performance presents a mixed picture, with some savings achieved—such as underspends in ICT Shared Services (£0.07m), Housing Services (£0.08m) and Legal Services (£0.05)—primarily due to staffing vacancies and rental income surpluses. However, pressures remain in key areas including car parking (£0.4m), the Beam Theatre (£0.3m), and Improvement & Insight (£0.05m), where income targets and operational costs have not aligned with expectations. Savings from the Leadership Team restructure have been realised as the restructured Leadership Team is now in place. The outcome of the Tier 3 review is currently being discussed. While some savings are on track, the overall position highlights the need for continued monitoring and timely delivery of planned initiatives to maintain budgetary control hence the recommendation has been rolled forward.<br><br>Work remains in progress and as such the recommendation remains open. |

# Value for money: follow up of prior recommendations

| Observation previously reported | Criteria | Recommendation previously made | Auditor update 2024/25 |
|---|---|---|---|
| Financial resilience risks<br>*continued from previous page* | Financial Sustainability | Financial management<br>11. 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. | For 2025/26, Quarter 1 monitoring identified financial pressures, which the Leadership Team is actively reviewing in order to implement mitigation measures. The Medium-Term Financial Plan (MTFP) has been updated with the latest assumptions, incorporating these pressures. A funding gap of £0.5m has been identified and the Leadership Team is developing options to achieve a balanced budget for 2026/27. Work is also underway to address future funding gaps early, thereby reducing reliance on reserves. In Quarter 1 of 2025/26, the Council reported a forecast overspend of £0.9m against a net cost of services budget of £15.9m.<br><br>Work remains in progress and as such the recommendation remains open. |
| | Financial Sustainability | Finance peer review<br>12. 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 is reporting 10 out of 14 of the actions being reported as completed. Key areas addressed include budget reporting, where savings figures have been reconciled and their future impact clarified. Risk schedules are now embedded in quarterly monitoring and budget reports. Delegated savings and options have been discussed and documented and a comprehensive business case for BEAM commercialisation has been produced and integrated into the Medium-Term Financial Plan (MTFP). Capital programme reviews are now conducted quarterly to assess dependencies and reduce reliance on borrowing. However, some actions remain ongoing, including the publication of a statement on usable reserves and the establishment of a performance metrics group involving officers and Executive members.<br><br>Work remains in progress and as such the recommendation remains open. |

# Value for money: follow up of prior recommendations

| Observation previously reported | Criteria | Recommendation previously made | Auditor update 2024/25 |
| --- | --- | --- | --- |
| Financial resilience risks<br>*continued from previous page* | Financial Sustainability | Minimum revenue provision<br>13. 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. | MRP in 2024/25 was £0.751m. This is only 1.2% of the opening CFR (compared to a prudential benchmark of 2% minimum) and 1.2% of total borrowing (compared to a prudential benchmark of 3% minimum). In addition, borrowing is 106% of the CFR, indicating the Council is overextended on its borrowing with minimal financial headroom. These ratios indicate, as at 2024/25, financial strain.<br><br>The Minimum Revenue Provision (MRP) policy for 2025/26 has been updated in consultation with the Council's external advisors. Whilst this would increase MRP to a level above the 2% benchmark it would still remain below 3% of borrowing and, unless repaid, total borrowing will continue to exceed the CFR.<br><br>**Updated recommendation**<br>13. Management should continue to review the MRP annually to ensure it remains adequate and prudent in relation to both the CFR and borrowing levels, helping to mitigate long-term financial risks. In particular, management should ensure the MRP charge is sufficiently prudent and ensure MRP is being provided on assets over a period that does not exceed, on average, a period of 50 years. Further action may be needed to further strengthen longer term financial resilience, primarily the repayment of debt so total borrowing no longer exceeds the CFR. This would improve 'headroom' for financial resilience purposes and reduce the risk the Council is over indebted. |

# Value for money: follow up of prior recommendations

| Observation previously reported | Criteria | Recommendation previously made | Auditor update 2024/25 |
|---|---|---|---|
| **Implementation of internal audit recommendations**<br>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 | 14. 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. | The Director of Finance has implemented a number of measures to strengthen governance. These include regular meetings between the Chief Finance Officer (CFO) and the Chief Internal Auditor to review audit findings and address any identified issues; monthly Finance meetings with the Leadership Team to discuss key financial and governance matters; oversight by the Operational Council comprising the Chief Executive, CFO, and Monitoring Officer, to ensure timely action on governance risks; and regular reporting to the Audit and Governance Committee to facilitate effective member scrutiny and oversight. The latest internal audit report does not note any high-priority recommendations outstanding.<br><br>**Recommendation closed** |

# Value for money: follow up of prior recommendations

| Observation previously reported | Criteria | Recommendation previously made | Auditor update 2024/25 |
|---|---|---|---|
| **Asset disposals and LGR**<br>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. | Improving economy, efficiency and effectiveness | 15. 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). | As part of the disposal programme, the Council's Property Services will undertake a thorough review and carry out appropriate due diligence before proposing or agreeing to any asset sale. This process will ensure that decisions reflect not only what is in the best interests of East Herts but also consider the implications for any future council arrangements. The aim is to safeguard anticipated benefits and savings from unitarisation and avoid any adverse impact on the financial position of successor authorities or the wider community.<br><br>Work remains in progress and as such the recommendation remains open. |

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