



Auditor's Annual Report for Hertsmere Borough Council

FINAL

Year-ended 31 March 2024

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28 February 2025

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This report is addressed to Hertsmere Borough Council (the Council). We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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01

Executive Summary



Executive Summary



Purpose of the Auditor’s Annual Report

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of Hertsmere Borough Council (the ‘Council’). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Council alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:



Accounts - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Council 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’).



Narrative report - We assess whether the narrative report is consistent with our knowledge of the Council.



Value for money - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Council’s use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.



Other powers - We may exercise other powers we have under Local Audit and Accountability Act. These 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.

In addition to the above, we respond to valid objections received from electors.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities.

Accounts	<p>We issued a disclaimer of opinion on the Council’s financial statements on 28 February 2025. Further details are set out on page 7.</p> <p>We have provided further details of the key risks we identified and our response on pages 8-11.</p>
Narrative report	<p>We did not identify any significant inconsistencies between the content of the narrative report and our knowledge of the Council.</p>
Value for money	<p>We are required to give an opinion as to whether the Council has appropriate arrangements in place to secure economy, efficiency, and effectiveness in the use of resources.</p> <p>Our opinion is that the Council does have appropriate arrangements in place. We identified no significant weaknesses in respect of arrangements to secure economy, efficiency, and effectiveness in the use of resources. Further details are set out on page 13.</p>
Other powers	<p>See overleaf.</p>

Executive Summary



There are several actions we can take as part of our wider powers under the Local Audit and Accountability Act:

Public interest reports

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 Council 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.

Judicial review/Declaration by the courts

We may apply to the courts for a judicial review in relation to an action the Council is taking. We may also apply to the courts for a declaration that an item of expenditure the Council has incurred is unlawful.

We have not applied to the courts this year.

Recommendations

We can make recommendations to the Council. These fall into two categories:

1. We can make a statutory recommendation under Schedule 7 of the Local Audit and Accountability Act. If we do this, the Council 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.
2. We can also make other recommendations. If we do this, the Council does not need to take any action, however should the Council provide us with a response, we will include it within this report.

We made no recommendations under Schedule 7 of the Local Audit and Accountability Act.

Advisory notice

We may issue an advisory notice if we believe that 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 Council is required to stop the course of action for 21 days, consider the notice at a general meeting, and then notify us of the action it intends to take and why.

We have not issued an advisory notice this year.

In addition to these powers, we can make performance improvement observations to make helpful suggestions to the Council. Where we raise observations we report these to management and the Audit Committee. The Council is not required to take any action to these, however it is good practice to do so and we have included any responses that the Council has given us.

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Audit of the financial statements



Audit of the financial statements



KPMG provides an independent opinion on whether the Council's financial statements:

- Give a true and fair view of the financial position of the Council as at 31 March 2024 and of its income and expenditure for the year then ended; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

We conduct our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We also fulfil our ethical responsibilities under, and ensure we are independent of the Council in accordance with, UK ethical requirements including the FRC Ethical Standard. We are required to ensure that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Our audit opinion on the financial statements

We have issued a disclaimer of opinion on the Council's financial statements on 28 February 2025. We therefore do not express an opinion on the financial statements. The reason for our disclaimer of opinion is as follows:

The Accounts and Audit (Amendment) Regulations 2024 (the "Amendment Regulations") require the Authority to publish its financial statements and our opinion thereon for the year ended 31 March 2024 by 28 February 2025 (the "Backstop Date").

We have been unable to obtain sufficient appropriate audit evidence over a number of areas of the financial statements as we have been unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. These areas include, but were not limited to: Cash; Property, Plant and Equipment; Short-Term and Long-Term Debtors, Short-Term and Long-Term Creditors in the Group and Authority Balance Sheets, Depreciation and Impairments; Non-domestic rates income and expenditure and Business Rates Appeals Provision; and the balance of, and movements in, usable and unusable reserves for the year ended 31 March 2024 in relation to both the Group and the Authority.

In addition, we have been unable to obtain sufficient appropriate evidence over the disclosed comparative figures for the year ended 31 March 2023 due to the Backstop Date. Therefore, we were unable to determine whether any adjustments were necessary to the opening balances as at 1 April 2023 or whether there were any consequential effects on the Group's and the Authority's income and expenditure for the year ended 31 March 2024.

Any adjustments from the above matters would have a consequential effect on the Group's and the Authority's net assets and the split between usable reserves and unusable reserves as at 31 March 2024 and 31 March 2023, the Collection Fund and on their income and expenditure and cash flows for the years then ended.

The full audit report is included in the Council's Annual Report and Accounts for 2023/24 which can be obtained from the Council's website.

Further information on our audit of the financial statements is set out overleaf.

Audit of the financial statements



The table below summarises the key financial statement audit risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Significant financial statement audit risk	Procedures undertaken	Findings
<p>Valuation of land and buildings</p> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Council conducts a rolling valuation of operational assets in order that all assets are revalued at least every 5 years.</p> <p>Valuations are inherently judgmental and there is a risk of error that the assumptions are not appropriate or correctly applied.</p> <p>The value of the Council's Land & Buildings at 31 March 2024 was £177.3m.</p>	<p>We have performed the following procedures designed to specifically address the significant risk associated with the assets revalued during 2023/24:</p> <ul style="list-style-type: none"> • We critically assessed the independence, objectivity and expertise of Wilks Head & Eve, the valuers used in developing the valuation of the Council's properties at 31 March 2024; • We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code; • We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information; • We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used; and • We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement. 	<p>We did not identify any material misstatements relating to this risk. However, note that testing was performed to gain assurance over the revalued portion of land and buildings only, as we do not have assurance over brought-forward land and buildings balances due to the disclaimer of opinion given for 2022/23.</p> <p>Auditing standards require us to report that the design and implementation of the management review control relating to this area is ineffective in line with the ISA definition. The ISAs acknowledge that it is difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements. Therefore, we did not raise any recommendations relating to this risk.</p> <p>We considered the estimate, for the assets valued in 2023/24, to be balanced based on the procedures performed.</p>

Audit of the financial statements



Significant financial statement audit risk	Procedures undertaken	Findings
<p>Management override of controls</p> <p>Professional standards require us to communicate the fraud risk from management override of controls as significant.</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. We have performed the following procedures designed to specifically address this significant risk:</p> <ul style="list-style-type: none"> • We assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias; • We evaluated the selection and application of accounting policies; • In line with our methodology, we evaluated the design and implementation of controls over journal entries and post closing adjustments; • We assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the Council's normal course of business, or are otherwise unusual; and • We analysed all journals through the year and focus our testing on those with a higher risk. 	<p>We did not identify any material misstatements relating to this risk.</p> <p>Per the Auditing Standards, we have assessed the design of implementation of controls in place over the Council's General Ledger system, eFinancials. The Council has a process in place which requires journals to go through a workflow which enforces segregation of duties between posting and approving journals. However, there is a flaw in the system which allows users to circumvent this workflow.</p> <p>There is a risk of manual journals without segregation of duties being posted that results in inappropriate or erroneous entries being posted to the ledger going undetected.</p> <p>Our analysis of the journals listing only identified two journals posting in the 2023/24 financial year which were self approved. Our testing of these journals did not identify any material misstatements.</p> <p>We acknowledge that management performs a review of self-approved journals. However, this process isn't formalised. Therefore, we have raised a recommendation that management formalises this process so that the appropriateness and accuracy of self-approved journals can be evaluated and approved retrospectively.</p>

Audit of the financial statements



Significant financial statement audit risk	Procedures undertaken	Findings
<p>Valuation of post retirement benefit obligations</p> <p>The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.</p> <p>We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme</p> <p>Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.</p>	<p>We have performed the following procedures designed to specifically address this significant risk:</p> <ul style="list-style-type: none"> • We evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations; • Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability; • We performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets; • We agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation; • We challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data; • We confirmed that the accounting treatment and entries applied by the Council are in line with IFRS and the CIPFA Code of Practice; • We considered the adequacy of the Council's disclosures in respect of the sensitivity of the deficit or surplus to the assumptions; and • We assessed the level of surplus that should be recognised by the entity. 	<p>Auditing standards require us to report that the design and implementation of the management review control relating to this area is ineffective in line with the ISA definition. The ISAs acknowledge that it is difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements. Therefore, we did not raise any recommendations relating to this risk.</p> <p>We considered the estimate, for the post retirement benefit obligations in 2023/24, to be balanced based on the procedures performed.</p> <p>We have identified one material misstatement in respect of this significant risk where the net defined benefit obligation was understated. This misstatement was corrected by management.</p>

Audit of the financial statements



Significant financial statement audit risk	Procedures undertaken	Findings
<p>Fraud risk from expenditure recognition</p> <p>The Council has a statutory duty to balance their annual budget. Where a council does not meet its budget this creates pressure on the Council's usable reserves and this in turn provides a pressure on the following year's budget. This creates an incentive for manipulation of expenditure recognised in the year. While the Council has usable reserves of £59.6m, including a General Fund balance of £8.8m, (as at 31 March 2024) upon which it is able to draw where needed, the balance of usable reserves has reduced over recent periods which underlines the increasing budgetary pressures the Council is experiencing, in common with much of the sector.</p> <p>We consider that this risk is focussed around the completeness of manual accruals (i.e. excluding those which are system-generated such as Goods Received Not Invoiced), with the Council looking to push back expenditure to 2024- 25 to mitigate financial pressures.</p>	<p>We have performed the following procedures designed to specifically address the significant risk:</p> <p>We evaluated the design and implementation of controls for developing manual expenditure accruals at the end of the year to verify that they have been completely recorded;</p> <p>We inspected a sample of invoices of expenditure, in the period around 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period and whether accruals are complete;</p> <p>We performed a search for unrecorded liabilities by selecting a sample of expenditure made from the bank statements of the Council in the two months following year end, in order to identify any liabilities present at the year-end that had not been recognised in the 2023/24 financial statements; and</p> <p>We inspected journals posted as part of the year end close procedures that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>Auditing standards require us to report that the design and implementation of the management review control relating to the Council's assessment of year-end accruals is ineffective in line with the ISA definition. The ISAs acknowledge that it is difficult for management to design controls that address subjectivity in a manner that effectively prevents, or detects and corrects, material misstatements. Therefore, we did not raise any recommendations relating to this risk.</p>

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Value for Money



Value for Money



Introduction

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or ‘value for money’. We consider whether there are sufficient arrangements in place for the Council for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



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



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



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

Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor’s Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We make performance improvement observations where we identify opportunities to improve in areas where we have not identified any weaknesses.

Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	15	17	19
Identified risks of significant weakness?	x No	x No	x No
Actual significant weakness identified?	x No	x No	x No
2022-23 Findings (Ernst & Young LLP)	No significant weakness identified	No significant weakness identified	No significant weakness identified
Direction of travel	↔	↔	↔

Value for Money



National context

We use issues affecting Councils nationally to set the scene for our work. We assess if the issues below apply to this Council.

Financial performance

Over recent years, Councils have been expected to do more with less. Central government grants have been reduced, and the nature of central government support has become more uncertain in timing and amount. This has caused Councils to cut services and change the way that services are delivered in order to remain financially viable.

Some Councils have initiated innovative plans to raise new funds, such as through increasing commercial activity. Examples have included purchasing commercial assets such as shops and offices with a view to generate rental income, others have set up novel joint ventures to deliver regeneration schemes. Some have questioned whether commercialisation activities open Councils to excessive risk or could be a poor use of taxpayer monies.

Some Councils have issued what are known as “section 114” notices, in this instance a declaration that they cannot generate sufficient resources to meet the costs they need to incur. In some instances, this has resulted in a need for exceptional financial support from central government (such as approval to sell council buildings to meet costs) and severe cutbacks to services.

Local context

Background

Hertsmere Borough Council is a non-metropolitan district with borough status in Hertfordshire. The Council provides district-level services to a population of around 108,000 residents. There are close working relationships between the Council, Hertfordshire County Council, local parish councils and the other nine district councils within the County.

Entity structure

The Group structure consist of Hertsmere Borough Council as the parent entity and two subsidiaries, Elstree Film Studios Ltd and Hertsmere Developments Limited.

Elstree Film Studios Ltd is a company formed in November 2003. Elstree Film Studios Ltd provides film and television studio space and related production and back-office units for hire within the media industry.

Hertsmere Developments Limited a wholly-owned local authority property development company. The principal activity of the entity is to explore property development opportunities and maximise its income stream. It was formed to assist the Council to deliver its regeneration, housing, financial and commercial objectives.

Financial performance

In 2023/24, the Council reported a deficit on provision of services of £11,278k. When also considering the surplus on revaluation of non-current assets of £742k and the actuarial gains on pension assets and liabilities of £6,562k, the Council reported a total comprehensive expenditure position of £3,974k.

The Council had total reserves of £237,506k as at 31 March 2024 which was split between total usable reserves of £59,615k and total unusable reserves of £177,891k.

Hertsmere Borough Council have not issued and does not anticipate issuing a Section 114 notice.

For 24/25, the Council has developed a balanced budget with net revenue budget of 13,814k and budgeted capital expenditure of £21,286k. As at 30 September 2025, the Council's revenue budget has a favourable variance of £763k and is projected to increase to a surplus of £1,462k by year-end. Additionally, the Council's capital budget was revised to £40,361k to account for slippage against the 2023/24 budget. The 24/25 Quarter 2 expenditure against the capital programme was £5,666k with a forecast total spend of £13,399k, resulting in a budget variance of £25,342k.

Financial Sustainability



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

We have considered the following in our work:

- How the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- 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 other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Council identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Budget setting and monitoring

- The Council has a legal requirement to set a balanced budget before the start of each financial year. At the start of the budget process a budget timetable is drawn up and circulated setting out key dates in the process. Key pressures as identified as part of the Medium-Term Financial Plan (MTFP) are included in the budget and any known changes are fed into the budget and presented to all budget holders at the Senior Management Team meeting. The draft 23/24 revenue budget, which includes the budget setting timetable, was presented to the SMT on 7th July 2022.
- The draft budget was presented to the Cabinet and Policy Review Committee for scrutiny and the final budget was approved by the Council at the meeting on 22/02/2023. The budget considers key financial pressures such as pay awards and inflation on costs and fees.
- Within the 23/24 revenue budget, the Council budgeted net service expenditure of £13,111k. The Council budgeted total net funding of £13,111k which consisted of net funding of £4,554k from government grants and £8,557k from council tax. This meant that there was no identified funding shortfall in 2023/24 and therefore no saving plans were developed. However, the Medium-Term Final Plan to 2026/27 has estimated a funding gap of £846k over the period.
- There are regular budget holder meetings throughout the year. Findings and actions from these smaller budget holder meetings are then used to help generate the monthly Strategic Financial Monitoring Report. The report consists of sections on the revenue budget, capital budget, investment income and debtors. The revenue budget report includes details of services variance reports with explanations for major variances, year-end projections and reserve funding utilised. The capital budget report includes details of the current capital spend against the agreed capital budget and project updates on all major capital projects.
- The Revenue budget monitoring report is split into 14 sub-sections with the variances between the performance and budget being analysed by the following categories: Employees, Premises and Related, Transport, Supplies and Services, Third Party Payments, Transfer Payments and Income. Where there are large variances in the employees and income categories, these are further broken down for a more detailed analysis to enable more informed decision making.
- The revenue, treasury and debtors monitoring reports are produced monthly and the capital monitoring reports are produced quarterly. The monitoring reports are reported to the Operations Review committee on a quarterly basis. Any recommendations are then reported to the Cabinet for further scrutiny and approval.

Financial Sustainability



Financial performance

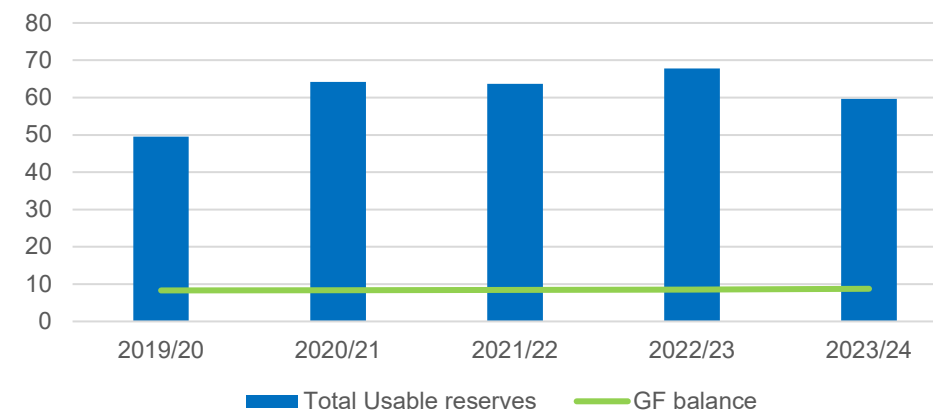
- The 2023/24 year-end performance against the revenue budget has a variance favourable variance of £262k which was largely attributable to a favourable variance in investment interest. As at year-end, the revised capital budget for 2023/24 was £40,412k and the full year expenditure on the capital programme was £25,887k giving a year end variance of £14,525k which consisted of £14,424k of slippage and £101k of underspend.
- The Council holds investment properties with a combined value of £9,054k. All these investment properties are held in compliance with the Prudential code. The governance arrangements in place to manage these investments are within the remit of the Council committee, the Council reviews and approves the Treasury Management Strategy Statement each year which confirms that it is compliant with the requirements of the Prudential Code.
- The Council had total reserves of £237,506k as at 31 March 2024 which was split between total usable reserves of £59,615k and total unusable reserves of £177,891k.
- During the 2023/24 financial year, the Council has decreased its level of total reserves by £3,974k to £237,506k. This decrease is due to a decrease in total usable reserves of £8,212k to £59,615k but is partially offset by an increase in total unusable reserves of £4,238k to £177,891k.
- For 24/25, the Council has developed a balanced budget with net revenue budget of 13,814k and budgeted capital expenditure of £21,286k. As at quarter 3 of 2024/25, the Council's revenue budget had a favourable variance of £763k and is projected to increase to a surplus of £1,462k by year-end. Additionally, the Council's capital budget was revised to £40,361k to account for slippage against the 2023/24 budget. The 24/25 quarter 2 expenditure against the capital programme was £5,666k with a forecast total spend of £13,399k.
- The Council has a history of maintaining the General Fund balance at a consistent level of around £8.5m as shown in the graph to the right. Usable reserves including reserves earmarked for specific revenue and capital projects were bolstered during the pandemic and to date have been maintained at a similar level, though reduced by £8m in 2023/24. Maintaining healthy General Fund and wider usable reserves balances helps to ensure that the Council remains financially resilient.

Risk assessment conclusion

Based on the risk assessment procedures performed we have not identified any significant risks or significant weaknesses associated with the Council's financial sustainability arrangements.

Key financial and performance metrics:	2023-24 (£m)	2022-23 (£m)
Planned surplus/(deficit)	0	0
Actual surplus/(deficit)	0.3	0.2
Usable reserves	60.0	67.8
Gross debt compared to the capital financing requirement	0:1	0:1
Year-end borrowings	Nil	Nil
Year-end cash position	24.1	28.4

General Fund Balance and Total Usable Reserves (£m)



Governance



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

We have considered the following in our work:

- how the Council monitors and assesses risk and how the body 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; and
 - how the Council monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour.
- The Council's governance structure is headed by the Full Council which is made up of all 39 elected Councillors. The majority of decisions taken are by the Cabinet. The Cabinet currently comprises the Leader and seven councillors, each of whom has their own portfolio of particular responsibilities, allocated by the Leader. The Council and Cabinet are supported by two Overview and Scrutiny committees, five Regulatory committees, the personnel committee and other bodies and Cabinet panels.
 - Operational performance is monitored at two levels, at the Senior Management Team and at the Full Council which receives regular service updates. The Council's two Scrutiny committees scrutinise the decisions and performance of the Cabinet and the council as a whole and undertake policy development and review work. The Operations Review Committee is responsible for scrutinising all operational matters. The Policy Review Committee will be responsible for scrutinising the Council's plans and strategies, external partnerships and the annual Council Budget. It will also scrutinise crime and disorder matters as per the Police and Justice Act 2006. The Cabinet receives a Performance Indicator Report. The report includes the quality service indicators, progress against the Council's position statements, KPIs and Management Information Indicators.
 - The Council has well-documented and effective processes in place to identify, monitor and manage risk. This is underpinned by the Council's Risk Management Strategy which details guidance about the Council's management of risk and opportunity.
 - The Council's risks are categorised into strategic and operational risks. These risks are recorded onto Pentana the Council's Performance & Risk Management software. This ensures all of the Council's risks are held on one database. The Audit Committee will note and advise or comment on the Council's risk management arrangements as appropriate, as identified in the Council's Constitution. The Committee will also review the Strategic Risk Register on a quarterly basis.
 - The Council maintains an anti-fraud and anti-corruption strategy. This strategy outlines the Council's attitude to fraud and corruption and the approach that the Council will take when faced with such matters. The Shared Anti-Fraud Service (SAFS) conducts specific pro-active and reactive counter fraud work on behalf of the Council. Although SAFS provides much of the Council's operational counter fraud work, including investigative services, driving fraud referrals, fraud awareness training and fraud risk assessments, Council officers are responsible for ensuring that policies, procedures, training, and appropriate resources are in place to protect the Council from fraud, corruption, and bribery.
 - The internal audit programme operated by SIAS provides an opportunity for monitoring compliance. The risk register presented to the Audit Committee includes risks which relate to compliance with laws and regulation, such as Employment Legislation and Corporate Health and Safety. The Council also has several relevant policies in place designed to enable the monitoring of laws and regulations, to ensure compliance.

Governance



- Each year, the Council will prepare its financial budgets for the upcoming financial year. The Council is required by law to set a balanced Revenue Budget each year, showing how it intends to fund the services it plans to provide in the forthcoming year. The Revenue budget therefore reflects the financial implications of the Council's aims and objectives for the forthcoming year. In addition to the revenue budget, the Council also prepares a capital budget and an investment/treasury budget.
- At the start of the budget process a budget timetable is drawn up and circulated setting out key dates in the process. Key pressures as identified as part of the Medium-Term Financial Plan (MTFP) are included in the budget and any known changes are fed into the budget and presented to all budget holders at the Senior Management Team meeting.
- Budget holders will then meet with their business accountant to do a line-by-line review of their budgets and put together their Star Chamber packs. Star Chamber involves detailed budget challenge on proposed efficiencies and pressures for the following year.
- The budget papers and any budget gap are then scrutinised by a member-led budget panel, chaired by the Finance and Budget Portfolio holder. As part of this discussion, solutions for bridging the budget gap are discussed and evaluated. Further meetings are held with budget holders to agree further changes to close the gap. Once the central government finance settlement for the relevant year is announced, the budget papers are again reviewed to ensure that any changes not already included as part of the process above are reflected in the updated budget.
- A detailed budget report is then presented to the Cabinet in order to recommend for consultation, then to the Scrutiny Committee. It then goes back to the Cabinet for onward approval by Full Council in February. The draft budget along with a budget summary is also posted on the Council's website for open public consultation.
- The Council has a Code of Conduct for Councillors, a Code of Conduct for Employees and a Whistleblowing Policy which are published on the Council's website. The Codes of Conduct defines the standards of behaviour for councillors and all employees. All councillors and employees are made aware of the relevant code of conduct at the beginning of their employment. The Whistleblowing policy provides staff with an assurance that the Council will respond to all concerns raised. The policy details a step-by-step process as well as providing contacts for internal and external advice.

- The Council also maintains a Procurement Strategy, Contract Procedure Rules and Standing Financial Regulations. We have determined that the Council's Financial Regulations and associated Procurement documents, are in line with the requirements of the public procurement legislation. The policy is appropriately laid out and contains a high level of detail. It is informative and highlights key points/areas and processes to be followed regarding procurement, including considerations of value for money, ethics and probity, data transparency, competitive and fair procurement, environment/sustainability and modern slavery. The Council's Contract procedure rules were last updated in January 2022 but have since been reviewed and updated to comply with the Procurement Act 2023 and will be presented to Council for approval in February 2025.

	2023-24	2022-23
Control deficiencies reported in the Annual Governance Statement	None identified	None identified
Assurance opinion on internal control	Reasonable assurance	Reasonable assurance
Local Government Ombudsman findings	No report published	No report published
Care Quality Commission rating	No inspection reports published	No inspection reports published

Risk assessment conclusion

Based on the risk assessment procedures performed we have not identified any significant risks or significant weaknesses associated with the Council's governance arrangements.

Improving economy, efficiency and effectiveness



How the Council uses information about its costs and performance to improve the way it manages and delivers its services

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
 - how the Council evaluates the services it provides 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, in order 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 identification of efficiency requirements are determined through the forecasting of expenditure and income for the upcoming financial year. This is done as part of the budget setting process. Plans for delivery of efficiencies are developed by Finance Business Partners and Budget Holders who propose alternative income generation, cost savings or service reductions for closing the budget gap. These proposals are presented to the Star Chamber meetings, which challenge the budget and proposed efficiencies and pressures for the following year. The panel consists of the Managing Director; Executive Director; Head of Finance & Business Services (S151 Officer) and Head of Legal & Democratic Services (Monitoring Officer). Any changes to the budget agreed at these meetings are then fed into the budget.
 - The Council considers economy, efficiency and effectiveness in evaluating and approving, where relevant, new business cases. For a decision to be considered, there is a standard template which is required to be completed for revenue budget related business cases and a bid appraisal form for capital business cases.
 - The revenue template requires comprehensive information to be captured around: reporting to Scrutiny Committees; Financial and budget framework implication; Legal powers relied on and any legal implications; Efficiency gains and value for money; implications for Risk management; Personnel; Equalities; Corporate Plan and policy framework; Asset management; and Health and Safety.
 - The Capital Project Bid Appraisal Forms requires information on Project Description, Project Timeline, Objectives and Outcomes (including how the project meets the aims and objectives of the Corporate Plan, Community Strategy, Finance Strategy and Corporate Property Strategy), Costs and Funding, VFM Assessment, and Risk Assessment. Both templates demonstrate a clear linkage between business cases and wider strategy objectives of the Council.
 - Additionally, the Corporate Procurement Rules highlight the ways the Council helps ensure that any procurement process for services, works or goods achieves best value and are transparent, open and fair, making it possible for all decisions to be audited satisfactorily. The Contract Procurement Rules detail the Expenditure and Authorisation Thresholds; Invitation to Tender rules; Evaluation and Award of Contract rules; and Contract formalities.
 - With regard to performance management, management monitors cost performance through quarterly performance reports against the performance indicators under Hertsmere Vision. The Cabinet receives quarterly reports that set out the performance of the Council over each quarter and 2023/24 as a whole against the Quality Service Indicators, the agreed performance indicators which reflect the key services delivered by the Council. Each year, the Cabinet also receives and evaluates an annual benchmarking report which sets out the Council's performance against the latest available indicators produced by the Office for Local Government data dashboard, as well as ad hoc national performance reporting such as the DEFRA fly-tipping league tables.

Improving economy, efficiency and effectiveness



- In addition to review at Cabinet, the Cabinet Performance Management Panel reviews the Quality Service Indicators (QSI) and those wider Key Performance Indicators (KPIs) that are performing below target. Any areas which require further investigation are referred to the Council's Scrutiny function.

Risk assessment conclusion

Based on the risk assessment procedures performed we have not identified any significant risks or significant weaknesses associated with the Council's arrangements for improving economy, efficiency and effectiveness in its use of resources.



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