

Auditor's Interim Annual Report on Dacorum Borough Council

2022/23

March 2024



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2022/23 is the third year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below.

Criteria	2022/23 Risk assessment	2021/22 Auditor judgement on arrangements	2022/23 Auditor judgement on arrangements	Direction of travel
Financial sustainability	No risks of significant weakness identified	No significant weaknesses in arrangements identified.	No significant weaknesses in arrangements identified but one improvement recommendation made See further commentary on pages 6 to 10 of this report	↔
Governance	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but improvement recommendations were made.	No significant weaknesses in arrangements identified. See further commentary on pages 11 & 12 of this report.	↑
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	No significant weaknesses in arrangements identified, but an improvement recommendation was made.	No significant weaknesses in arrangements identified. See further commentary on pages 13-15 of this report.	↑

- G** No significant weaknesses in arrangements identified or improvement recommendation made.
- A** No significant weaknesses in arrangements identified, but improvement recommendations made.
- R** Significant weaknesses in arrangements identified and key recommendations made.

Executive summary



Financial sustainability

Dacorum Borough Council (the Council) has a strong track record of managing its finances prudently and in spite of what has been a turbulent period in public sector finances due to the Covid-19 pandemic, the war in Ukraine and the cost-of-living crisis, the Council has maintained a firm grip on its finances. We note the financial challenges ahead are significant, especially in the latter years of the Medium-Term Financial Strategy (MTFS) to the end of 2026/27. However, early indications and the forecast position for 2023/24 indicate that the Council is managing that uncertainty well. Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any significant weaknesses and have not raised any key recommendations. We have raised one improvement recommendation as a result of our review. See page 10 for more detail.



Governance

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We note that the CEO has implemented a new leadership structure with 5 new Strategic Directors. This structure appears to be bedding in well and based on the findings of our review, we consider there to be appropriate tone from the top. We note that the composition of the Audit Committee is relatively new following recent elections. We have not identified any significant weaknesses and have not raised any key recommendations or improvement recommendations.



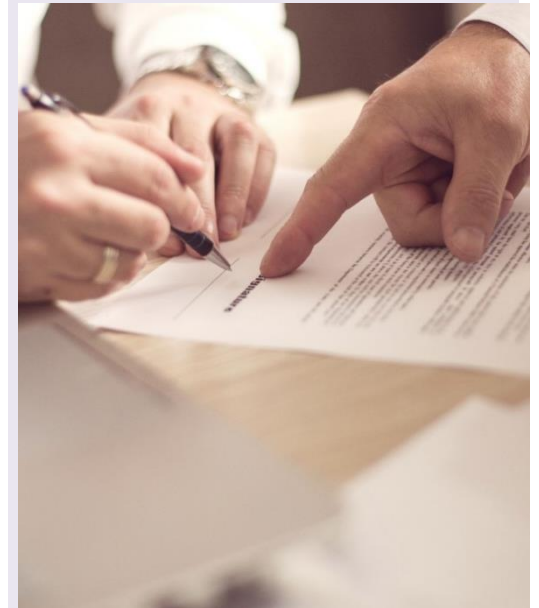
Improving economy, efficiency and effectiveness

The Council is currently updating its Corporate Plan and associated performance indicators. We note that this work is in progress and the direction of travel is positive. As with all Councils, Housing presents financial challenges and the turbulence in the wider economy has impacted on costs for repairs and maintenance. That, allied to increased regulatory requirements, means the Housing service is under pressure. The Council has recognised this and its new Housing Strategy underpinned with a revised HRA Business plan and Asset Management strategy means that the Council is responding positively to managing those pressures. We have not identified any significant weaknesses and have not raised any key recommendations or improvement recommendations.



Financial Statements opinion

Our audit of your financial statements remains incomplete as we wait for key assurances from the Hertfordshire County Council Pension Fund auditor. Once this is received we expect to issue an unqualified audit opinion. Our findings are set out in further detail on pages 17.



Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 6 to 15.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures 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
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

In 2022/23, the Council was recovering from the financial effects of the pandemic as funding from the Government to meet additional costs wound down. However, there were additional financial pressures on the budget from issues such as rising energy costs, inflation, interest rates, Brexit and supply chain issues. The Council therefore faced a difficult economic backdrop against which it had to make spending and funding decisions to ensure future financial sustainability.

Financial outturn 2022/23

The Council has historically performed well in managing its finances, with a track record of strong financial and budgetary management despite the challenging environment in which it is operating. The Council achieved a small surplus of £0.065m for 2022/23. Although there was a small surplus there were cost pressures in year on Waste services (£0.97m – due to increased rounds and maintaining additional fleet) and the impact of the pay award across all services (£0.72m) which were offset by improved income (£1.53m) from investments due to rising interest rates.

The Housing Revenue Account has returned a deficit of £2.29m. This was largely due to significant increases in repairs and maintenance costs and was covered by a transfer from reserves.

Financial forecast outturn 2023/24

The Council originally set a General Fund revenue budget for 2023/24 of a net cost of £14.57m which included a savings target of £1.8m in the year

The Housing Revenue Account (HRA) budget was set at £63.7m including a contribution to reserves of £0.016m.

The Quarter 3 Performance Report presented to Cabinet in March 2024 updated members on the forecast outturn for the year. This predicted the General Fund (GF) to be £0.236m under budget. This included a number of pressures:

- additional employee costs within Neighbourhood Operations £0.175m

- additional expenditure on works to trees in the borough £0.080m
- a reduction in income received in relation to services provided to the HRA (HRA recharge) £0.459m

The above pressures were offset by:

- increased investment income £0.203m
- further government grants £0.170m
- reduction in staffing pressures within the Place directorate £0.115m.

The HRA is reporting a budget pressure of £0.370m at quarter 2. There are increased pressures of £3.777m on repairs and maintenance, and £0.482m on supervision and management costs. These are offset by increased investment income of 0.313m, income from tenants of £1.179m and the £2.538m removal of the Revenue contribution to capital to support the underlying in year budget pressures.

Budget setting process

Our 2021/22 report in May 2023 includes details of the budget setting process which has not changed for the 2024/25 round of financial planning. A Corporate Service Planning process was undertaken to develop specific priorities and opportunities for service areas over a 3-year period. This process was then used to inform savings and opportunities for the budget planning process.

The resulting service plans identified a number of consistent themes across service areas, including: Climate change action; Improving customer focus; Improving processes through digitisation and the development of a Digital Strategy; Developing positive leadership and culture and the need for a new People Strategy; Community Safety; Economic Recovery and a refreshed focus on the Council's place shaping programme. The majority of these key outcomes have seen further strategic development throughout 2023.

Financial sustainability

Budgetary control

Expenditure against budget is monitored by services on a monthly basis and services are supported in this process by accountants who are assigned to specific services. Quarterly financial performance reports are then provided to Cabinet. One of our improvement recommendations from last years' report was that these performance reports should include non-financial as well as financial detail to give members a holistic view of performance. The Council committed to doing this from Q1 2023/24 financial reporting and We are pleased to observe evidence of implementation and reports now include this more holistic view of performance

Medium term financial strategy

The MTFs for GF revenue expenditure (2023/24 - 2026/27) was updated and presented to members in January 2023 then approved in February 2023.

Savings plans

The latest position on savings is included in the Budget 2024/25 and MTFs 2024/25 document which was presented to Cabinet in October 2023. Based on the assumptions in the MTFs strategy, the total Savings Requirement in the period 2023-2028 is £4.4m, of which £1.7m has already been identified. This leaves a residual savings requirement of £2.7m. The Council has a four-year savings plan which recognises that the delivery of savings opportunities has grown increasingly complex in recent years and these opportunities require a longer lead time to ensure successful delivery. As a result of this, the total savings requirement comprises three elements which reflect the fact the Council has a number of initiatives already underway to deliver savings in future years. Table 2 opposite provides a breakdown of the savings requirement.

These are challenging targets for the Council and represent 5-10% savings per annum over the 3 year period. We note the emerging commercial strategy and the suite of business cases that are being developed which should potentially generate additional income to contribute to these savings targets. Aside from the commercial strategy there is a strong reliance on the Council's Transformation programme to deliver the savings target. Typically transformation programmes such as these can take time to deliver and may be subject to slippage. The Council should allow for sufficient headroom within the savings plans to mitigate these risks and to protect reserves. We make an improvement recommendation relating to this point (see improvement recommendation on page 10). Notwithstanding this recommendation the Council is managing its savings targets in a structured and disciplined way.

Table 1 – MTFs 2023-24 to 2026-27

APPENDIX A2 - GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY					
	Approved 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
	£000	£000	£000	£000	£000
Service Expenditure & Income					
Employees	27,600	30,340	30,002	30,784	32,174
Premises	5,199	5,461	5,762	5,935	6,072
Transport	1,800	1,929	2,001	2,087	2,177
Supplies & Services	8,018	8,427	8,145	8,087	8,235
Third-Parties	987	831	836	841	857
Transfer Payments	47,146	47,146	47,146	47,146	47,146
Capital Charges & Bad Debts	4,916	4,922	4,925	4,927	4,930
Income	(69,167)	(71,553)	(73,170)	(74,115)	(74,492)
Recharge to HRA	(5,084)	(6,115)	(6,298)	(6,487)	(6,682)
Cumulative Savings	0	0	1	230	(246)
Net Cost Of Services	21,415	21,388	19,349	19,435	20,170
Less:					
Interest Receipts	(300)	(755)	(1,101)	(1,278)	(1,488)
Interest Payments & MRP	1,029	741	741	741	741
Reversal of Capital Charges	(4,802)	(4,802)	(4,802)	(4,802)	(4,802)
Net movement to/(from) Earmarked Reserves	(1,390)	2,639	84	489	543
Budget Requirement General Fund	15,952	19,211	14,271	14,585	15,164
Parish Precepts	1,015	1,234	1,282	1,333	1,385
Budget Requirement Including Parishes	16,967	20,444	15,553	15,917	16,549
Funded by:					
Business Rates Retained	(2,904)	(3,067)	(3,187)	(3,246)	(3,306)
Revenue Support Grant	0	0	2,403	3,247	3,247
New Homes Bonus	(1,294)	(1,627)	0	0	0
Other Government Grants	(343)	(66)	0	0	0
Council Tax (Surplus)/Deficit	402	0	0	0	0
Business Rates (Surplus)/Deficit	1,023	(1,111)	0	0	0
Net Expenditure before Council Tax	13,851	14,574	14,769	15,918	16,489
Demand on the Collection Fund	(13,851)	(14,574)	(14,994)	(15,451)	(15,949)
General Fund Balance B/Fwd	(2,502)	(2,502)	(2,502)	(2,502)	(2,502)
In year use	0	0	0	0	0
General Fund Balance C/Fwd	(2,502)	(2,502)	(2,502)	(2,502)	(2,502)
Total Savings Requirement		1,799	1,541	114	160
of which,					
Savings identified, and already delivered		0	0	0	0
Savings identified, but still to be delivered		(1,799)	(847)	(113)	(31)
Savings still to be identified		0	694	1	129

Source: Dacorum BC General Fund MTFs Update 2023-24 to 2026-27

Table 2 – MTFs 2024-25 to 2027-28 (October 2023 update)

	2024/25	2025/26	2026/27	2027/28
	£1,600k	£1,190k	£900k	£720k
Total Savings Requirement	£1,600k	£1,190k	£900k	£720k
a. Savings identified, and delivered.	£800k			
b. Savings Identified, but still to be delivered	£800k	£110k	£30k	£0k
Total Savings Requirement	£0k	£1,080k	£870k	£720k

Source: Dacorum_BC_Draft 2024-25 Budget_&_MTFS

Financial sustainability

Financial planning

The Corporate Plan (2020-2025) clearly sets out corporate strategic priorities, which are also referenced within the Council's financial planning. The plan provides a framework to invest in the Council's broader ambitions and long-term priorities. We are satisfied there is a clear linkage between the Medium Term Financial Strategy (MTFS) and the priorities set out in the Corporate Plan. These priorities are referenced in the MTFS. The capital programme also supports the Council's corporate priorities. The capital programme is mainly focused on the development of a small number of large projects including Leisure investment, fleet replacement and development of Light industrial units.

The Council's Corporate Plan is currently in the process of being updated in early 2024.

Managing risks to financial resilience

The Council has identified risks to the capital and revenue forecasts as part of the MTFS. These risks are scored as high, medium or low and given a control measure in order to reduce the risk to MTFS. The 2023/24 MTFS has identified a shortfall in the General Fund of £4.4m over 4 years, £1.7m of which have already been identified. Generally, we find the Council to be well managed and there is a high level of understanding of its budgetary position, budgetary pressures and any savings required. There is an established process by which the budget is reviewed regularly, and issues are reported on a timely basis to those charged with governance.

Reserves

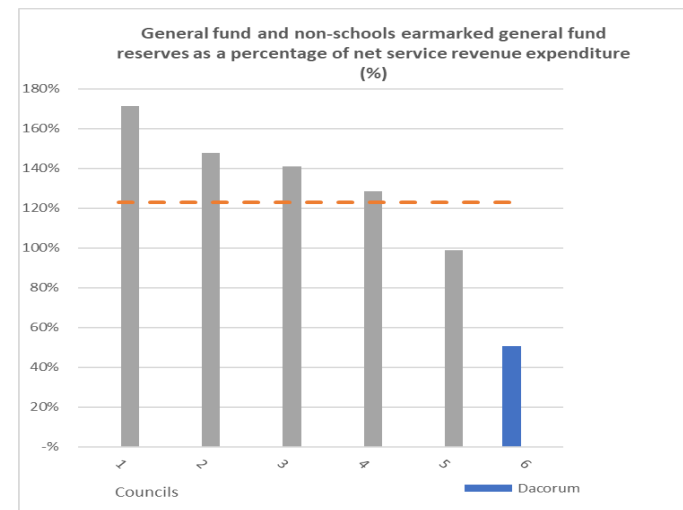
We note the Council sets aside unallocated reserves and reviews these annually in the context of emerging financial challenges with reserves called upon as required in line with plan. The Council's track record of good financial management and delivery to budget year on year, has enabled the Council to operate comfortably with a relatively low level of unallocated general fund and earmarked reserves, compared to other similar district councils. This is indicative of a Council that is focused on putting its financial resources to work rather than holding on to its reserves. However, we note that with the challenging savings targets the Council has moving forward, the Council's financial risk profile is shifting. The unallocated reserves balance of £2.5m was the balance as at March 2023, which is approximately 6% of the net revenue budget for services in 2023/24 and is in excess of the 5% generally accepted benchmark. In addition, the Council has set aside a further £18.5m of reserves into earmarked funds to manage various identified risks. Total forecast reserves as at March 2024 are expected to be £21.5m.

With this in mind, we undertook some analysis of the Council's reserve levels in comparison to those of other similar councils (see table 3 below). The benchmark group we selected was based on data from published 2022/23 draft accounts and comprised five other Hertfordshire districts (Watford, Three Rivers, North Hertfordshire, Broxbourne and Welwyn Hatfield). The results indicate the level of available general fund and earmarked reserves as a proportion of the net cost of services for Dacorum Borough Council as at 31 March 2023 was low in comparison. However, for context, the Council has a relatively strong financial position with a smaller medium term funding gap and a lower level of financial risk than others in the comparator group.

The other factor to note is that the peer authorities cited in the report are geographically close to Dacorum but all have differing risk profiles and circumstances. Dacorum has a lower level of savings to deliver than some of those authorities. The Council's debt position is manageable with loans at favourable PWLB rates meaning exposure to debt financing risks is at a reasonable level. We also note that the Council undertook a risk assessment on its unallocated reserve balance which was published as part of the 2024/25 budget

So, in summary we are content that the Council is in a managing its reserves position prudently.

Table 3 – Reserves Analysis



Source: 2022/23 LG Draft Accounts

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Financial sustainability

Capital

The Council has a Capital Strategy in place which is clearly linked to the priorities in the Corporate Plan. The General Fund capital programme 2024-2029 totals circa £69m, the larger capital programmes are:

- £28m for Leisure Investment, plans to be discussed with members in early 2024
- £16m for the ongoing fleet replacement programme
- £2.5m for the provision of a new DEN's One stop shop and foodbank.
- £4.5m for Light Industrial development and delivery
- £6m for Place shaping acquisitions

Major capital projects are managed by the relevant budget holder/contract manager. There are quarterly reports on capital spending and the progress of the capital programme and these go to Cabinet with explanations of the major variances. We note that the quarter 2 monitoring report in November 2023 is reporting slippage of £4.1m, a large proportion of which (£2.5m) relates to the creation of a new Community Facility and Foodbank at the Hub (Dens) which is linked to the housing development.

In the Housing Revenue Account capital spend is planned to be £268m across the five years. For 2023/24 the Housing capital budget was £81m. The new Housing Revenue Account (HRA) business plan was presented to Cabinet in January 2024. This sets out the financial implications of plans for new and existing Council homes contained in the Council's Housing Strategy 2024-29. The Business Plan covers a 30 year period, with a focus on the medium-term (the first five years) where there is greater certainty on costs, demands, resources and pressures.

Borrowing

The Council's debt and borrowing position is illustrated in table 4 below.

Table 4 – Debt and Borrowing

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
External Debt						
Debt at 1 April	353.502	349.680	337.446	355.214	385.672	400.497
Expected change in Debt	(3.822)	(12.233)	17.768	30.458	14.826	14.295
Other long-term liabilities	0.188	0.188	0.188	1.188	1.188	1.188
Actual gross debt at 31 March	349.868	337.634	355.402	386.860	401.685	415.980
The Capital Financing Requirement	345.051	349.299	393.901	450.144	464.235	477.749
(Under)/over borrowing	4.817	(11.665)	(38.499)	(63.284)	(62.550)	(61.769)

Source: Draft Treasury Management Strategy 2023/24

There are a number of key indicators to ensure the Council operates its activities within well-defined limits. One is that the Council needs to ensure its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures borrowing is not undertaken for revenue purposes or to generate a profit. The Council complies with this indicator.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any significant weaknesses and have not raised any key recommendations.

Improvement recommendations

Improvement Recommendation 1

The Council should develop sufficient headroom within its savings plans to mitigate the risk that the Transformation programme may slip.

Summary findings

The Council has in place a Transformation programme and Commercial Strategy to help deliver the £2.7m savings required in the period 2024/25 to 2026/27. Typically transformation programmes such as these can take time to deliver and may be subject to slippage. The Council should develop sufficient headroom within the savings plans to mitigate these risks and protect reserves.

Criteria impacted



Financial sustainability

Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant but have raised a recommendation to support management in making appropriate improvements.

Management comments

The savings proposals are robustly scrutinised and reviewed by the Strategic Leadership team and tolerances are included in the projected savings - these are reviewed and monitored. The Strategic leadership team will assess the need to set up headroom in future medium-term planning.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

Governance



We considered how the Council:

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

Leadership, decision making and committee effectiveness

The Council operates a Leader and Cabinet form of executive arrangements. In addition, there are four scrutiny committees which hold the Cabinet to account.

The work of the Council's committees are governed by the Constitution. The Constitution is regularly reviewed and updated, and was last reviewed in October 2023. Relevant information is provided to decision makers before major decisions are made to ensure there is appropriate challenge. For example the MTF5 document is very detailed and clearly sets out the decisions required and provides detailed explanations for the financial forecasts.

Scrutiny is focussed on the Council's performance against the Council's Corporate Plan (2020-2025). This is currently being updated with a new version expected in the first quarter of 2024. based on the current plan there is a link between performance and finance.

The Annual Governance Statement should be read alongside the Council's Constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution is shared with all staff members on joining and is openly available on the Council's website.

Internal governance arrangements

In 2022-23 the Council implemented a new senior leadership structure which established 5 Strategic Directors (SDs). This structure appears to be bedding in well and based on the findings of our review, we consider there to be appropriate tone from the top. Each of the SDs has a Corporate Board which has delegated responsibility for decisions in its service area.

Only exceptions and contentious decisions are escalated to the Strategic Leadership Team (SLT). This was a deliberate strategy of

empowering the SDs to take decisions and accountability on themselves.

Alongside this new structure the CEO has established a leadership programme which all 55 of the Council's middle managers are participating in.

A centralised Programme Management Office (PMO) has also been established in 2022-23 to support the new SDs in the development and reporting of performance highlight reports.

The Council has undergone a significant changeover in members following the switch of Council from Conservatives to Liberal Democrat control. This has necessitated a significant input in terms of training new members in the governance arrangements. The Council officers have worked to adapt to the needs of the new administration.

Monitoring & assessing risk

The Council has a detailed risk management policy that provides details of the Council's approach to, and methodology for, the management of risk and provides guidance to all employees and Members on their roles and responsibilities in respect of risk management. The Council has arrangements in place to identify strategic risks, record and assess them. We reviewed the Strategic Risk Register (SRR) from March 2023 that was presented to the Audit Committee in July 2023 and found it to be fit for purpose.

The SRR assesses the profile of each risk by analysing the impact and likelihood to gain an overall view of the significance of the risk's threat to the achievement of the objectives. These are later multiplied to give an overall score which is used to help inform the response to the risk. Furthermore, the report includes an update from the previous quarter. We raised an improvement recommendation in our 2021-22 report relating to inconsistencies when recording the risk appetite score in the SRR and note that this has now been addressed.

Governance

Internal Audit

The Council has an established internal audit function that monitors and assesses the effectiveness of internal controls. The internal audit function is supplied by TIAA. We have inspected the Internal Audit annual report 2022-23 and confirmed the Council obtained substantial or reasonable assurance in 15 out of the 16 reviewed areas, providing an overall reasonable assurance for the year. There was one audit which concluded "Limited Assurance". In total the IA team completed 16 of the planned 17 reviews.

The limited assurance audit was Corporate Health and Safety and this was rolled forward from 2021/22. After the review of the documentation provided by the internal audit function, we can confirm the Audit Committee has received sufficient and appropriate assurance to assess the effectiveness of internal controls and that there are no gaps in the assurance provided.

Monitoring and ensuring appropriate standards

The Council has arrangements in place to monitor compliance with legislation and regulatory standards. The arrangements include the oversight of the Monitoring Officer, and the work of internal audit.

The Annual Governance Statement is compliant with the CIPFA code. It forms part of the Annual statement of accounts for 2022-23 and was reviewed and approved by the Audit Committee (AC) in June 2023. An appropriate level of care is taken to ensure the Council's policies and procedures comply with relevant codes and legislative frameworks.

The Council has a Counter-Fraud and Counter Corruption Policy, as well as a Whistleblowing Policy, Code of Conduct and Anti-Money Laundering Guidance. These document the policies and procedures of the Council, as well as the ethical behaviours expected of staff.

A Register of Interests is maintained and there is a standing item on all meetings of the boards and panels to disclose any interests relating to matters on the agenda. There is a good suite of policies in place, covering anti-fraud and corruption, and the Council has an established anti-fraud culture. We identified in the previous year, that the Council could disclose gifts or hospitality which had been declined. This has been reviewed and included in the recent review of the Constitution by the Monitoring Officer.

We have not been made aware of any significant non-compliance with the Council's governance framework, other breaches of legislation or regulatory standards, or serious data breaches.

Audit committee effectiveness

The purpose of the Audit Committee is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements at the Council. The Committee's role in ensuring that there is sufficient assurance over governance, risk and control gives greater confidence to those charged with governance that those arrangements are effective. There are no statutory requirements that determine the composition of the Audit Committee.

The Audit Committee comprises seven members. CIPFA's recommendation in *Audit, Standards & Governance Committees: Practical Guidance for Local Authorities and Police (2022)* is authorities should strive to have no more than eight members, the Council is therefore following the recommendation.

CIPFA guidance emphasises the importance of the separation of executive roles and the membership of the AC. Where an authority has a cabinet system of governance, as the Council does, including a member of the cabinet on the committee is discouraged. We have compared the

membership of the AC with the members of the Cabinet to ensure a clear separation. We can confirm that no members of the Cabinet are also members of the AC, in line with the guidance.

There are currently no independent members on the Council's Audit Committee. CIPFA guidance and the Redmond Review (2020) recommend the committee includes two co-opted independent members. We note from the AC on the 26 July 2023 that the Council is in the process of trying to recruit independent members.

To discharge its responsibilities effectively, CIPFA guidance recommends the Committee meet at least four times a year. The Council's Audit Committee met six times in 2022/23 and has already met four times in 2023/24 with two more meetings scheduled before the end of March 2024. While the Audit Committee has met regularly we noted that one of the members only attended one of the six meetings. We do note, however, that the composition of the Audit Committee has changed for 2023-24 and attendance has been good in the four meetings to date in this financial year.

Conclusion

Overall, we are satisfied the Council has appropriate governance arrangements in place. We have not identified any significant weaknesses and have not raised any key recommendations. We have not raised any improvement recommendations.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- 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
- where it commissions or procures services assesses whether it is realising the expected benefits.

Working in partnership

The Council works with a number of strategic partners. The main partnerships are with Leisure via Everyone Active that provides the Council's leisure services, and Osborne property services and Sun Realm, which both provide housing repairs and maintenance services to the Council. There is also a shared service for building Control services with seven other district councils.

The Council is currently in a partnership with Herts crematorium and is exploring options for partnerships in the following areas:

- NHS and ICB partners to develop Hemel market square into a Health campus
- Legal services
- Planning services

These are being overseen by the Commercial Board (CB) which was established in January 2023 following the development of the Commercial Strategy in 2022. The CB has responsibility for scrutinising current and prospective partnerships to ensure they are delivering or will deliver value for money for the Council.

The Council has a strong relationship with the County Council. The Chief Executive at the Council also chairs the South West Herts Joint Strategic Partnership. which is a partnership between St Albans, Watford, Hertsmere, Three Rivers and Dacorum whose remit is to develop a regional spatial growth plan beyond the current local plan periods. The growth locations have yet to be decided in terms on investment but there has been good collaborative working to date.

Procurement

Robust and compliant procurement is key in delivering public services as organisations need to meet statutory obligations and deliver value for money for taxpayers.. We have discussed with the Council how they ensure they are following the recommendations set

out in the LGA national procurement strategy and we are satisfied the Council has adequate processes and controls in place to meet these. For example, the procurement team has now integrated its procurement pipeline with its contracts register to ensure the contracts register is complete. The new Commercial Board provides oversight on ongoing improvement in both procurement and contract management and ensuring that upfront work on forward planning is carried out. The updated version of the Contracts Register is included on the Council's website. The Council monitors the performance of procurement through its Commercial Board.

A new set of procurement and contract standing orders has been developed in 2023. They are a very clear set of rules and regulations that are there to primarily protect the Council, but also the officers, and to make them fully aware of what they should and should not be doing and represent good practice. A new set of contract documents has been developed with the support of an external legal firm Sharpe Pritchard and the Council has embarked on formal contract management training for managers in January 2024.

We noted there is a tender waiver process is in place with regular reporting of tender waivers to the Audit Committee.

Performance monitoring

The performance monitoring function of the Council has undergone significant change in the past 18 months with a new Strategic Director of People and Transformation and a number of new performance roles created and filled. The Key Performance Indicators (KPIs) of the Council have been reviewed, updated and benchmarked against other Councils with the result that a new set of KPIs has been developed. These align with the Council's Corporate Plan which is in the process of being updated in the first quarter of 2024.

Improving economy, efficiency and effectiveness

The introduction of “performance clinics” where the performance team reviews and challenges service data and KPIs with services is a new feature of the developing new performance management regime. The new process is for five performance clinics, one for each directorate which will be chaired by the Strategic Director (SD) of that respective area. The clinics will include each Corporate Leadership Team (CLT) member for that directorate area and a representative from the performance team. The performance clinics will allow the performance team to highlight to the SD the performance levels of the KPIs for their service area and enable in-depth discussions on actions for maintaining or improving performance and any underperforming KPIs that need escalating to SLT/ Members.

The performance team is providing a monthly commentary on service performance and providing more robust challenge. A good example is the recent analysis of sickness leave which was rising and the performance team carried out a deeper analysis to find out whether this was due to a seasonal flu outbreak. Work is still ongoing on the conclusion of that analysis. Performance reports are reviewed at the SLT meetings as well as to one of the three quarterly Scrutiny committees. Below is an extract from the November 2023 performance report.

Corporate & Commercial Services					
Financial Services - Monthly Performance Scorecard					
Measure Code #	Measure	Date	Actual	Target	DoT
FIN01	Percentage of creditor trade invoices paid within 30 days	Nov 2023	99.4%	96.0%	3.4
FIN02a	Time taken for debtors to pay	Nov 2023	68.8	40.0	28.8
Performance against target has declined slightly from the previous month. Targets for this indicator have been held at pre-pandemic and current cost of living crisis conditions. This has been a deliberate strategy based on the strong performance of the service against these target prior to the economic conditions of recent years and an aspiration to achieve this target going forward. This approach is kept under review with the most recent review being part of the Performance Improvement Project with new monthly targets. These targets will be approved as part of the approval process for the whole Performance Management Framework.					
FIN03	General Fund Budget Variance against forecast	Nov 2023	£36,000.00	0.00	36,000
The position reported is that as at the end of October the latest approved position. The GF is reporting a surplus as at period 7 (October 2023) driven by increased investment income arising from high interest rates.					
FIN04	Housing Revenue Account Budget Variance against forecast	Nov 2023	£70,000.00	0.00	70,000
The position reported is that as at the end of October the latest approved position. The HRA is reporting a pressure of £370k at month 7 (October 2023). This relates to staffing and repairs and maintenance forecast costs, partly offset by increased investment income arising from high interest rates.					
FIN06	Capital variance against forecast	Nov 2023	£-35,000.00	0.00	-35,000
There is a small forecast underspend against the Council's capital programme as at October 2023, the latest approved position.					

The current Corporate plan is being updated and as part of the process the performance team is working with services to ensure their service plans are aligned with both the new KPIs and the overarching Corporate plan which the KPIs support. We have considered the new arrangements as part of our review and are encouraged that these should significantly strengthen the Councils ability to monitor performance and take mitigating action where necessary.

Benchmarking

The performance team works closely with and has good links to other Hertfordshire Councils sharing data for benchmarking purposes. In particular the area of Waste services has been benchmarked with other councils.

There have been no peer reviews carried out in the past 5 years though the Council is keen to engage in such an exercise. The Council is planning to have a peer review in late 2024 though this is dependent on any election requirements. The contingency position is to push this back into quarter 1 of 2025. We endorse this approach and consider the timing is appropriate for a peer review for the Council.

Housing

In common with other authorities in the sector, the Council has experienced significant pressure in the performance of the housing service in the past year. The introduction of increased regulatory requirements around electrical safety, damp and mould have been contributing factors. There is a new build programme totalling £90m which runs to 2026-27 and alongside this there is a large backlog of repairs and though the Council is managing this in a structured way there is no doubt that this will put ongoing pressure on the Council's resources and finances and will need to be carefully managed moving forward. In particular the procurement for total asset management will be a critical for the Council to get right and this deserves significant ongoing attention.

During 2022-23, the Council had to deal with a serious incident in one of its properties and self referred to the Housing Regulator in May 2022. Having reviewed all the remedial actions that the Council took in respect of fire and asbestos, the Housing Regulator concluded that the evidence at this time did not indicate a systemic failing and they had not found a breach of the consumer standards and accordingly did not take regulatory action. The Council has continued to monitor the situation and has a strong focus on the issues which gave rise to the incident.

The Council appointed a new Strategic Director of Housing and Property Services in early 2023 who is overseeing the implementation of a new Housing strategy to run from 2024 to 2029. The strategy has 5 key commitments:

1. Become an excellent social landlord, delivering services that meet the needs of our residents.
2. Demonstrate dedication to tackling the climate emergency in Dacorum. Reducing energy consumption of our existing housing stock, and take steps to ensure that all new homes meet excellent thermal efficiency standards.
3. Champion the provision of safe, warm and dry homes across the Borough
4. Champion a culture of collaboration, both internally and with external stakeholders to deliver services and positive outcomes
5. Seek to meet the diverse housing needs of everyone living in Dacorum

The Housing strategy is accompanied by a new Housing Revenue Account (HRA) business plan which was presented to Cabinet in January 2024. One of the key strands of the new Housing Strategy is the Asset Management Strategy (AMS) which is being presented to Cabinet in March 2024. In the meantime an interim version has been issued and is being worked to.

Improving economy, efficiency and effectiveness

The AMS is aligned with the HRA business plan and has at its core a stock condition survey. The Council has recently embarked on a stock condition survey and has assessed 40% of its 10,000 properties. The remainder it has “cloned” as the majority (75%) are relatively new properties so the expectation is that they will not require the same level of repairs as the ones already assessed and this means the sample already taken can be deemed representative.

The Council is playing a leading role in the county in dealing with homelessness and the Chief Executive chairs the Strategic Migration Partnership in the East of England dealing with the associated issue of asylum seekers. This is an area putting significant financial and resource pressure on the Council and is one of a number of risks the Council is managing.

Overall the Council has identified a need to address a number of issues in housing and has taken action under its own initiative. We are therefore satisfied that appropriate action has been taken to identify and address the issues.

Conclusion

The Council is currently updating its Corporate Plan and associated performance indicators. We note that this work is in progress and the direction of travel is positive. As with all councils, Housing presents real financial challenges and the turbulence in the wider economy has impacted on costs for repairs and maintenance. That, allied to increased regulatory requirements means that Housing is under pressure. The Council has recognised this and its new Housing Strategy underpinned with a revised HRA Business plan and Asset Management strategy means that the Council is responding positively to managing those pressures.

Overall, we are satisfied the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We have not identified any significant weaknesses and have not raised any key recommendations. We have not raised any recommendations as part of our review.

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1 The Council should include non-financial information and performance data in financial reports to provide a more holistic view of the Council's situation and performance to Cabinet members	Improvement	June 2023	The Council provides detailed quarterly performance information to its Overview and Scrutiny Committee meetings and Cabinet. Financial performance reports also go to these committees on a quarterly basis. The financial reports include operational context for areas of significant financial pressure/ benefit. Where appropriate and relevant, links will be made to relevant performance information to provide Members with a more holistic view of service performance. This will commence as part of Q1 2023/24 reporting.	Yes	No
2 The Council should more consistent when recording the risk appetite scores to provide an indication of what level of risk is tolerable	Improvement	June 2023	The Council will ensure that risk appetite is recorded as part of its Strategic Risk Register reporting arrangements. This will commence from Q1 2023/24 reporting. Further guidance will be provided to risk owners to support this as needed	Yes	No
3 The Council should update the procurement strategy in order to reflect the current governance arrangements and processes around procurement. Especially, it should address the creation and role of the Commercial Development Board and the new processes surrounding standing orders.	Improvement	June 2023	The procurement strategy will be updated to reflect current governance arrangements. This will be carried out during 2023/24. See page 15 of this report	Yes	No

Opinion on the financial statements



Grant Thornton 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 2023 and of its expenditure and income 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 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

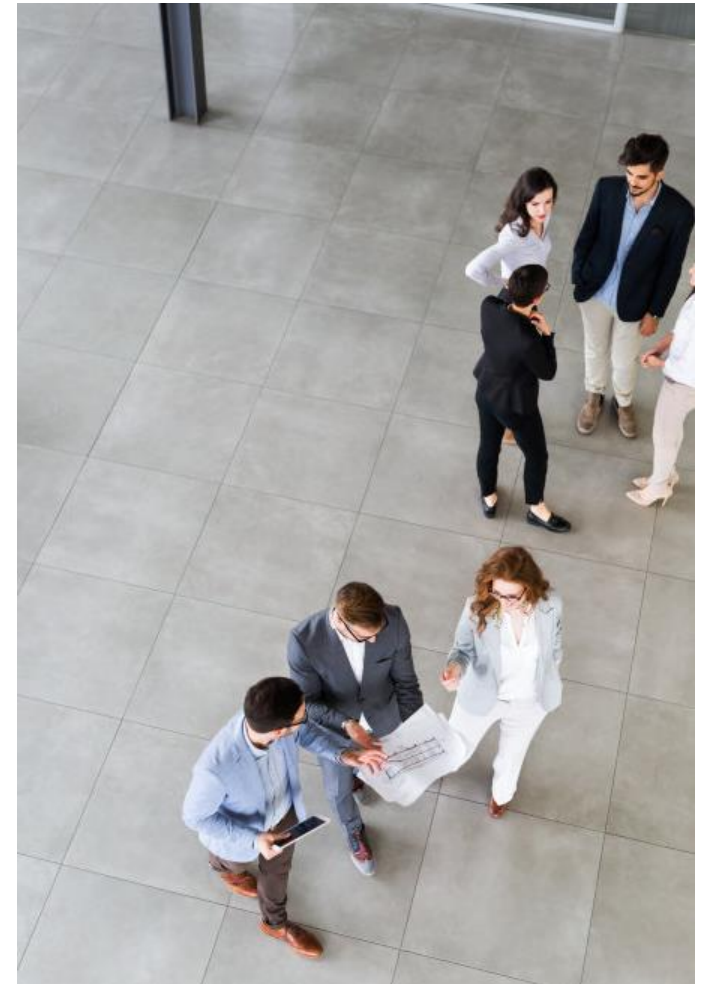
We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

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

Audit opinion on the financial statements

Our audit of your financial statements remains incomplete as we wait for key assurances from the Hertfordshire County Council Pension Fund auditor. All other work relating to the financial statements audit was completed between July and September 2023 with the findings reporting to the Audit Committee in September 2023 within our Audit Finding Report.



Use of auditor's powers

We bring the following matters to your attention:

2022/23

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.

We did not issue any statutory recommendations

Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a Public Interest Report

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply to the court under Section 28 of the Local Audit and Accountability Act 2014

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an advisory notice

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for a Judicial review

Appendices

Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

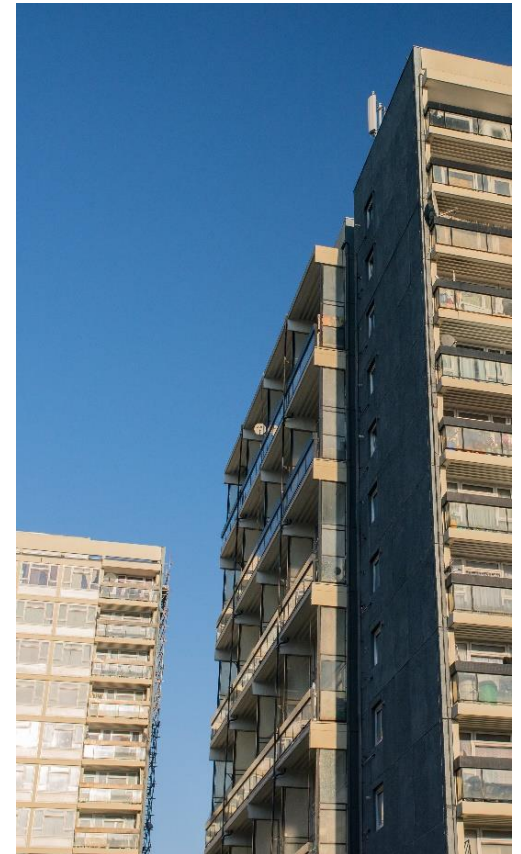
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B:

An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Page 10