

Agenda

Audit and Governance Committee

Date: **Tuesday 29 September 2026**

Time: **2.00 pm**

Place: **Herefordshire Council Offices, Plough Lane, Hereford,
HR4 0LE**

Notes: Please note the time, date and venue of the meeting.

For any further information please contact:

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Agenda for the meeting of the Audit and Governance Committee

Membership

Chairperson **Councillor David Hitchiner**

Vice-chairperson **Councillor Mark Woodall**

Councillor Chris Bartrum

Councillor Frank Cornthwaite

Councillor Peter Hamblin

Councillor Robert Highfield

Councillor Aubrey Oliver

Kerry Diamond

Independent Expert - Audit and
Governance Committee

Agenda

	Pages
1. APOLOGIES FOR ABSENCE To receive apologies for absence.	
2. NAMED SUBSTITUTES (IF ANY) To receive details of any councillor nominated to attend the meeting in place of a member of the committee.	
3. DECLARATIONS OF INTEREST To receive declarations of interest in respect of items on the agenda.	
4. MINUTES To approve and sign the minutes of the meeting held on [insert date].	11 - 18
5. QUESTIONS FROM MEMBERS OF THE PUBLIC To receive any questions from members of the public.	
HOW TO SUBMIT QUESTIONS	
Deadline for receipt of questions is 5pm on Wednesday 23 September, 2026. To ask a question: Submit your question via the online form , or Write to the Monitoring Officer, Herefordshire Council, County Offices, Plough Lane, Hereford HR4 0LE Questions sent to any other address may not be accepted.	
Accepted questions and the response to them will be published as a supplement to the agenda papers prior to the meeting. Further information and guidance is available at www.herefordshire.gov.uk/getinvolved	
6. QUESTIONS FROM COUNCILLORS To receive any questions from councillors.	
7. EXTERNAL AUDIT FINDINGS REPORT To consider the external audit findings report for the year ended 31 March 2026. (Appendix A - Superseded - Please see Revised External Audit Documents supplement)	19 - 80
8. FINAL ANNUAL GOVERNANCE STATEMENT To seek the view of the committee as to whether the Annual Governance Statement (AGS) for 2025/26 properly reflects the internal controls and the appropriateness of actions identified	81 - 102
9. FINAL STATEMENT OF ACCOUNTS	103 - 248

(Appendix B - Superseded - Please see Revised External Audit Documents supplement)		
10.	EXTERNAL AUDIT - AUDITOR'S ANNUAL REPORT 2025/26 To present to the Audit and Governance Committee the External Auditor's Annual Report 2025/26 for information and discussion.	249 - 296
11.	INTERNAL AUDIT - PROGRESS REPORT Q2 To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.	297 - 322
12.	WORK PROGRAMME To consider the work programme for the committee. Report to follow.	
13.	DATE OF NEXT MEETING 2:00pm, 3 November 2026	

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- Inspect agenda and public reports at least five clear days before the date of the meeting. Agenda and reports (relating to items to be considered in public) are available at www.herefordshire.gov.uk/meetings
- Inspect minutes of the council and all committees and sub-committees and written statements of decisions taken by the cabinet or individual cabinet members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting (a list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
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The location of the office and details of city bus services can be viewed at:

www.herefordshire.gov.uk/downloads/file/1597/hereford-city-bus-map-local-services-

The Seven Principles of Public Life (Nolan Principles)

1. Selflessness

Holders of public office should act solely in terms of the public interest.

2. Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

3. Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

4. Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

5. Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

6. Honesty

Holders of public office should be truthful.

7. Leadership

Holders of public office should exhibit these principles in their own behaviour and treat others with respect. They should actively promote and robustly support the principles and challenge poor behaviour wherever it occurs.

Guide to the Audit and Governance Committee

The Audit and Governance Committee comprises seven members of the council and may also include an independent person who is not a councillor but is appointed by council.

Councillor David Hitchiner (Chairperson)	Independents for Herefordshire
Councillor Mark Woodall (Vice Chairperson)	The Green Party
Councillor Chris Bartrum	Liberal Democrats
Councillor Frank Cornthwaite	Conservative Party
Councillor Peter Hamblin	Conservative Party
Councillor Robert Highfield	Conservative Party
Councillor Aubrey Oliver	Liberal Democrats
K Diamond	Independent Person

The Audit and Governance Committee oversees the audit and corporate governance arrangements of the Council including the annual audit plans and reports of the internal and external auditors, the Council's system of internal control, risk management framework and prevention and detection of fraud and corruption. In particular, the Committee has responsibility for considering and approving the annual statement of accounts. Further details about the committees function can be found [here](#).

Minutes of the meeting of the Audit and Governance Committee held in Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE on Tuesday 21 July 2026 at 2.00 pm

Committee members present in person and voting: Councillors: David Hitchiner (Chairperson), Mark Woodall (Vice-Chairperson), Chris Bartrum, Frank Cornthwaite, Peter Hamblin, Robert Highfield and Aubrey Oliver

Non-Voting Committee Person: K Diamond

[Note: Committee members participating via remote attendance, i.e. through video conferencing facilities, may not vote on any decisions taken.]

Others in attendance:

L Cater	Head of Internal Audit, South West Audit Partnership
S Carter	Head of Strategic Finance (Deputy S151)
S O'Connor	Head of Legal Services and Deputy Monitoring Officer
O Edwards	Manager, Grant Thornton
C Jacobs	Information Governance Manager
T Page	Complaints Manager
J Preece	Democratic Services Officer
R Sanders	Director of Finance
P Stoddart	Cabinet Member Finance and Corporate Services

1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

2. NAMED SUBSTITUTES (IF ANY)

There were no substitutes.

3. DECLARATIONS OF INTEREST

Councillor Frank Cornthwaite declared an interest in item 9.

4. MINUTES

RESOLVED:

That the minutes of the meeting held on 9 June 2026 be confirmed as a correct record and signed by the chairman.

5. QUESTIONS FROM MEMBERS OF THE PUBLIC

There were no questions received from members of the public.

6. QUESTIONS FROM COUNCILLORS

There were no questions received from Councillors.

7. EXEMPTIONS FROM CONTRACT PROCEDURE RULES 1 APRIL 2025 - 31 MARCH 2026

The Committee received a report providing assurance that exemptions to the Contract Procedure Rules were being appropriately managed and that robust controls were in place. The following principal points were noted;

1. During 2025/26, 17 exemptions were approved compared with 5 in the previous financial year.
2. Most exemptions related to statutory utilities, works that could only be delivered by a single provider, and cases involving urgency or community and public safety considerations.
3. There were 2 exemption requests that were not supported, as it was considered that procurement could have been planned earlier in the project timeline. These related to Active Travel measures; however, the service proceeded with the existing designers, with the Director determining that the associated risk was low as the contracts fell below the relevant legislative threshold.

In response to questions, it was noted;

- i. The exemption for the removal of waste from the A49 Green Lane site was supported due to the urgency of removing a substantial accumulation of hazardous waste, which posed risks to public safety, the local environment and the nearby River Lugg. It was noted that delaying action could have increased both the environmental impact and the eventual cost of remediation. Information on the preventive and deterrent measures in place to reduce further fly tipping at the green lane site and similar locations would be provided to members. **Action 2026/27-13**
- ii. The increase in exemptions during 2025/26 were linked to statutory works, public safety requirements and other one-off circumstances, rather than indicating a broader trend.
- iii. Exemption requests were monitored on a quarterly basis through the procurement pipeline and contract management processes to ensure procurement opportunities are identified at an early stage and that value for money is achieved.
- iv. Under the Council's Constitution, Directors may proceed in certain circumstances, particularly where risks are considered low and contract values fall below procurement thresholds, however, it was emphasised that should the Section 151 officer or the monitoring officer have significant concerns they can push back on the decision escalating through senior officer group if necessary.

The committee noted the report.

8. ANNUAL REVIEW OF THE COUNCIL'S INFORMATION REQUESTS & COMPLAINTS 2026

The committee received a report outlining the performance in the areas of complaints, data incidents and requests for information made to the council over the municipal year 2025/26. The following principal points were noted;

1. The Council handled 922 Freedom of Information (FOI) requests and 247 Environmental Information Regulation (EIR).
2. An overall 97% response rate was achieved, exceeding the Council's target of 95% and comparing favourably with other local authorities.

3. Information requests continued to rise during the year. To manage demand more efficiently, the Council proactively published information online, maintained a disclosure log with over 3,000 requests and responses, and provided informal responses where information was already publicly available. These measures enabled 213 requests to be handled outside the formal Freedom of Information process, resulting in faster responses for requesters and reduced administrative workload for Council services.
4. 13 cases were referred to the Information Commissioner's Office (ICO) with the Council's decision being upheld in 6 cases and the 7 cases remaining still under investigation.
5. 234 Subject Access Requests (SARs) were received, primarily relating to social care records. The response rate was 78%, below target, reflecting the complexity of reviewing and redacting large volumes of sensitive information.
6. 307 data security incidents, near misses and alleged breaches were reported. 1 incident met the threshold for reporting to the ICO, with no further action taken against the Council.
7. Lessons learned from incidents were used to improve training, communications, procedures and processes.
8. The Council processed 482 formal complaints, down from 560 in the previous year.
9. 48 complaints were referred to the Ombudsman, compared with 55 the previous year.
12. Complaints raised through third parties increased from 174 to 310.
13. Overall complaint numbers had continued to decline over the last four years, suggesting improvements in early resolution.
14. The introduction of the Complaint Handling Code had improved consistency, transparency and complaint management across the Council.
15. The most common complaint category remained service failure, although this reflected the complainant's perception and did not necessarily indicate an actual failure.
16. In Corporate Services, the largest complaint category related to delays and incorrect information, mainly concerning council tax matters.
17. Performance within Community Wellbeing and Economy and Environment remained an area of concern, with targeted support being provided.
18. Of the 482 Stage 1 complaints, 100 were escalated to Stage 2.
19. 38% of Stage 2 investigations were completed outside the required timescales, it was thought the implementation of the new complaints procedure and shorter response deadlines had contributed to delays.
20. Most Ombudsman referrals were either closed at the initial enquiry stage or found to be outside the Ombudsman's jurisdiction.
21. Complaints upheld by the Ombudsman mainly related to nationally recognised pressures in SEND and housing services.
22. The recommendations that were made as part of the annual report were noted.

In response to questions, it was noted;

- I. The response rate in SARs was lower than the target of 95%, largely due to the high volume of requests relating to Children's Services, particularly from care leavers and parents. These requests were often complex and time-consuming because large numbers of documents had to be reviewed and redacted to remove third-party and confidential information. While some requesters were understanding of the delays, others are less sympathetic and were keen to receive their information as quickly as possible.
- II. Complaints were viewed as an opportunity to learn and improve services. Whilst some recurring complaint themes, such as council tax, are predictable, many complaints were unique.
- III. The different stages of the complaints process were explained.

- IV. Complaints regarding SEND (Special Educational Needs and Disabilities) continued to reflect national pressures, particularly around delays in assessments and statutory timescales. The Council often implemented remedies following complaints in line with Ombudsman expectations. Communication with families was reported to be strong, with delays being the main issue rather than communication failures.
- V. For operational complaints such as missed bin collections, the Council first sought practical resolution through service requests. Repeat issues were formally investigated to identify underlying causes and prevent recurrence.
- VI. Where officers suspected a complaint was submitted using AI tools, it was explained that contact was made with the complainant to clarify the specific issues being raised to ensure complaints were properly understood and investigated.
- VII. Complaints data and compliments were currently analysed through officer review rather than AI tools, with officers emphasising the importance of understanding the detail behind feedback.

The committee noted the report.

9. CODE OF CONDUCT FOR COUNCILLORS - 2025/26

The Committee received an update on Code of Conduct complaints and investigation arrangements for 2025/26 (to March 2026). The following principal points were noted:

1. 51 Code of Conduct complaints were received during the reporting period, compared to a typical annual average of around 30.
2. 24 complaints arose from 3 complaints against groups of members, contributing significantly to the increase.
3. To improve efficiency, complaints involving groups of members were now managed collectively rather than investigated individually, reducing the impact on officer and member time.
4. 1 complaint was received against a Herefordshire councillor, which was not upheld.
5. 25% of complaints were submitted by parish and town councillors against other parish and town councillors and it was reiterated from previous years that most complaints could have been resolved locally through internal procedures.
6. Of the parish and town council complaints received, only 1 progressed to a formal investigation during the current year. Over the last 3 years, only 3 of 35 complaints from this category had required formal investigation.
7. The councils generating the highest number of complaints during the year were Ross Town Council, Kings Cople and Ledbury Town Council.
8. Of the 51 complaints received, 4 proceeded to full investigation, with breaches found. The remaining complaints were closed following initial assessment, either due to insufficient evidence or because the member concerned had accepted fault and taken corrective action, such as issuing an apology.
9. The increasing use of artificial intelligence (AI) in drafting complaints were highlighted.
10. Following Council approval of the Committee's recommendation to adopt a voluntary local resolution process, parish and town councils were notified, 4 councils had requested the template and support, while 2 councils had indicated they did not intend to adopt the process.
11. It was suggested that focus should be given to supporting the councils that voluntarily adopted the local resolution processes and on councils generating higher complaint volumes, rather than undertaking a universal awareness campaign across all parish and town councils.
12. The introduction of the government's national code of conduct framework was noted, with indications that local resolution arrangements may become a mandatory component, although further details were awaited.

13. The Committee were invited to consider options for encouraging greater uptake of local resolution processes and to explore the reasons why some councils remain reluctant to adopt them.

The principal points of the subsequent discussion are summarised below:

- I. Efforts should be focused on councils that repeatedly generated higher numbers of complaints, rather than adopting a countywide approach.
- II. An earlier proposal for ward councillors to assist with local resolution had not gained support, as many ward councillors were reluctant to become involved in disputes within parish councils.
- III. It was confirmed that around a dozen councils had requested copies of the local resolution template since it was first proposed, indicating some appetite for the approach.
- IV. There should be further engagement with HALC (Herefordshire Association of Local Councils) to better understand its concerns and reasons for opposing the proposal.
- V. Members suggested that successful examples of local resolution could be shared at future Parish Council Summits to demonstrate the benefits of the approach and encourage wider adoption.
- VI. There was willingness to engage directly with parish councils where appropriate, although previous experience suggested such discussions did not always lead to positive outcomes.
- VII. It was clarified that all parish and town councils had already been informed that template documentation was available. Councils had been invited to request the documents, and those that responded had been sent the information.
- VIII. The Head of Legal services agreed to analyse complaint trends, focus resources where they would have the greatest impact, and report back to the committee with the outcomes of the engagement work.

Resolved

That the committee noted the update on the Code of Conduct complaints arrangements in respect to the year-end 2025/26; that Council had agreed changes to the arrangements allowing Local Resolution; and agreed that; there be further engagement with HALC to discuss its reservations and identify whether barriers to adoption can be overcome, continue support for councils that had requested local resolution documentation, to write to councils that had generated the highest numbers of complaints to offer support and encourage adoption of local resolution arrangements and to seek feedback from councils that have declined to participate in order to understand and address their concerns.

10. UPDATE ON RISK MANAGEMENT ACTIVITY

The committee received an update on risk management activity. At Quarter 4, Risk 7 relating to the council's ability to respond adequately to a significant emergency was increased from a score of 9 to 12, reflecting a possible likelihood and major impact rating. The increase followed consideration by CLT and extended leadership team of the continuing and evolving cyber security threats facing the council. Updates to mitigating actions were also included within the report.

In response to questions, it was noted.

1. In relation to R9, it was explained that previous analysis of supplier dependency data had identified some limitations and, due in part to cost considerations, the council had not progressed with an external service previously considered. However, robust procurement processes remained in place, including financial assessments of suppliers, and further consideration would be given to whether additional analysis of supplier exposure was required.

2. In relation to R6 regarding workforce recruitment and retention, it was highlighted the council's strong retention rates and organisational development offer. The leadership programme supported career progression, leadership development and succession planning across the organisation, while employee survey feedback is used to inform future workforce development initiatives. It was noted that not all employees seek progression, but opportunities are available for those wishing to develop their careers.
3. In relation to R8 and environmental risks, it was acknowledged that recent climate-related events could inform future reviews of risk ratings and confirmed that the impact of such events would be considered as part of future updates. It was noted that current information from Welsh Water indicated no immediate risk of water shortages or hosepipe bans in the county.
4. In relation to R3, risks relating to children's placements. It was confirmed whilst local capacity remained a challenge, out-of-county placements continued to be used to meet demand. Further information on wider out-of-county placement capacity would be sought and reported back with consideration for its inclusion on the risk register. **Action 2026/27-9**

The committee noted the report and confirmed its frequency to be brought to the committee quarterly, following each Cabinet meeting, at which the Risk Register is considered.

11. 2025/26 FINANCIAL STATEMENT AUDIT PROGRESS

The committee received an update on the progress of the external audit of the council's 2025/26 draft financial statements. The following principal points were noted.

1. The draft accounts were published ahead of the statutory deadline, and the audit therefore had started earlier than planned.
2. Audit work was progressing in line with the agreed timetable, with no material errors or significant concerns identified to date.
3. Grant Thornton confirmed their intention to complete the audit in time for the audit findings report and audit opinion to be presented to the committee in September 2026, enabling publication of the audited accounts ahead of the statutory deadline.
4. Value for money work was ongoing, and no public enquiries had been received during the public inspection period for the accounts.

In response to questions, it was noted.

- I. Grant Thornton advised that it had experience of both in-house and externally provided internal audit arrangements and had not observed any significant difference in the quality of work delivered, although it could not comment on potential cost implications.
- II. The main audit change for 2025/26 related to revised requirements for the valuation of property, plant and equipment, including the use of indexation between cyclical valuations. It was explained that specialist external valuers provided the indices used by the council and noted that the changes were intended to reduce the audit burden across the sector. It was further noted that annual changes to the CIPFA code of practice may result in future amendments to accounting and audit requirements.
- III. In relation to the transfer of the public realm contract from Balfour Beatty to M Group, it was confirmed that this would have no impact on the 2025/26 accounts, as the contract change took effect after the financial year-end.

The chairperson on behalf of the committee thanked the finance team and auditors for their work in preparing and progressing the accounts.

The committee noted the report.

12. INTERNAL AUDIT UPDATE REPORT Q1 2026/27

The committee received an update on Internal Audit activity undertaken since the previous meeting. The following principal points were noted;

1. 3 final audit reports had been completed relating to Court Protection, Payroll, and Licensing Temporary Event Notices.
2. Progress was also reported on the Transport Hub audit, with a number of agreed actions proposed for closure, subject to final sign-off.
3. Further audit reports, including the Public Protection and Treasury Management, were expected to be presented at the next meeting.
4. An update was provided on the monitoring of agreed audit actions. Current audit work was progressing well, and a number of outstanding actions would likely to be closed following completion of follow-up work.

In response to questions, it was noted.

- I. The transport hub audit was substantially complete and awaiting final sign-off from the relevant director.
- II. The treasury management audit was nearing completion, with only minor information needed before sign-off.

Both final reports would be circulated to committee within 14 days of the date of this meeting and presented for discussion at the next committee meeting in September.

Action 2026/27-10

- III. Internal Audit worked with Hoople to provide assurance to the council on services which Internal Audit were asked to look at and which Hoople delivered on the Council's behalf. Audit recommendations issued in these reviews were advisory in nature and were intended to support service improvement and strengthen controls.
- IV. The court of protection audit had focused on the adequacy of processes and controls rather than individual cases. It was noted that the findings from the audit were being used to support wider service improvement work within the council.
- V. Responding to concerns about a number of long-standing outstanding audit actions, officers acknowledged the need for further analysis and agreed to review the historic recommendations, assess whether they remained relevant, and provide members with a detailed analysis of overdue actions and the reasons for delay at the next meeting. **Action 2026/27-11**
- VI. A potential emerging risk associated with proposed changes to foster carer approval arrangements which was being introduced by Central Government would be considered with the relevant service area as part of ongoing risk and audit planning to decide whether further audit activity was required. **Action 2026/27-12**

The committee noted the report and agreed the timeframe of two weeks for the completed transport hub and treasury management audits to be circulated.

13. INTERNAL AUDIT PLAN 2026/27

The committee received the proposed Internal Audit Plan for 2026/27. Members were advised that the plan had been developed following discussions with directors and had been informed by the corporate risk register and other sources of assurance. The proposed programme of work was designed to provide coverage across key corporate risks and service areas, and officers noted that further areas for review, including emerging risks identified during the meeting, would continue to be considered to ensure appropriate audit coverage across all directorates.

In response to questions, it was noted.

1. Assurance was requested about audit coverage of Children's Services. Officers and the Cabinet Member emphasised that maintaining and sustaining improvements within the directorate remained a key priority and focus. It was explained that, although the proposed Internal Audit Plan included limited audit work in this area, a range of other assurance and quality assurance arrangements were in place to monitor performance and ensure improvements continued. Officers confirmed that additional audit work in Children's Services could be considered and that there would be no resistance to further review if required.
2. Adult services was currently an area where further improvement work and assurance activity may be beneficial, particularly given the operational and financial challenges faced by the service.
3. Whilst the plan was informed by corporate risks, not every audit had a direct connection to a specific risk. Some reviews were undertaken to provide assurance on compliance, governance, service changes or grant requirements.
4. The committee was assured that sufficient audit coverage existed across key risk areas and that any amendments to the audit plan would continue to be reported through regular updates.

Resolved that the committee agreed the audit plan.

14. WORK PROGRAMME

The committee noted the work programme.

15. DATE OF NEXT MEETING

Tuesday 29th September 2026.

The meeting ended at 4.02 pm

Chairperson



Title of report: 2025/26 External Audit Findings Report

Meeting: Audit and Governance Committee

Meeting date: Tuesday 29 September 2026

Report by: Director of Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To consider the external audit findings report for the year ended 31 March 2026.

Recommendation(s)

That:

- a) **The report of the external auditor attached at Appendix A be considered; and**
- b) **The committee determine whether any issues raised in the report require inclusion in the committee's future workplan.**

Alternative options

1. There are no alternative options. The audit of the council's statutory accounts is a requirement of the Accounts and Audit (England) Regulations 2015 (as amended).
2. It is open to the committee to determine its future work programme to enable it to provide assurance on the adequacy of the council's risk management, financial reporting and annual governance processes. It is also open to the committee to comment on the scope and depth of external audit work and to ensure it gives values for money.

Key considerations

3. The external audit findings report is attached at Appendix A. The report has been prepared by the council's external auditor, Grant Thornton, and summarises the key findings and other

Further information on the subject of this report is available from
Rachael Sanders, Tel: 01432 383775, email: Rachael.sanders@herefordshire.gov.uk

matters arising from the statutory audit and the preparation of the financial statements for the year ended 31 March 2026 for the attention of those charged with governance.

4. Under International Standards on Auditing (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice (the Code), the external auditor is required to report whether, in their opinion, the group and council's financial statements:
 - i. Give a true and fair view of the financial position of the group and council and the income and expenditure for the year, and
 - ii. Have been properly prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.
5. External audit is also required to report on whether the information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or knowledge obtained through the audit or otherwise appears to be misstated.
6. The Independent Auditor's Report to Members, included as Appendix C to the 2025/26 Statement of Accounts on this agenda, confirms the audit opinion that the financial statements:
 - i. Give a true and fair view of the financial position of the group and of the Authority as at 31 March 2026 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
 - ii. Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26; and
 - iii. Have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.
7. The key issues arising are summarised below;
 - i. The external auditors expect to issue an unqualified audit opinion following the meeting of this committee on 29 September 2026;
 - ii. The external auditors have concluded that the other information to be published with the financial statements is consistent with their knowledge of the organisation and the financial statements they have audited;
 - iii. A small number of disclosure and presentation adjustments have been recommended which management have accepted and made relevant adjustments; and
 - iv. As part of audit testing, the appropriateness of the council's accounting policies, accounting estimates and financial statement disclosures have been evaluated and confirmed to be appropriate and compliant.

Community impact

8. In accordance with the code of corporate governance to support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. External audit contributes to effective accountability.

Environmental impact

9. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
10. Whilst this is a progress report on back-office functions and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the Council's Environmental Policy. For example, the external audit will be mostly completed remotely, reducing travel impact and paper usage.

Equality duty

11. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
12. The mandatory equality impact screening checklist has been completed for this activity, and it has been found to have no impact for equality.

Resource implications

13. The external audit fee detail is provided in Appendix A. Grant Thornton agrees the fee payable through Public Sector Audit Appointments (PSAA) who manage the external audit.

Legal implications

14. Under Part 3 paragraph 5.11 of the Constitution, it is a function of the Audit and Governance Committee to review and agree the External Auditor's Plan.

Risk management

15. The council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control. The external audit is not designed to test all internal controls or identify all areas of control weakness, however, if external audit identify any control weaknesses, these are reported. The external audit work continues in this area, the audit findings report attached at Appendix A details the conclusions on work completed.

Consultees

16. None.

Appendices

Appendix A – The Audit Findings Report for Herefordshire Council year ended 31 March 2026.

Background papers

None identified.

Audit Findings (ISA 260) Report for Herefordshire Council

Year ended 31 March 2026

18 September 2026



Herefordshire Council

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18 September 2026

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Dear Members of the Audit and Governance Committee

Audit Findings for Herefordshire Council for the year ended 31 March 2026

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Chartered Accountants

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We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to manage risk, quality and internal control particularly through our Quality Management Approach. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at [transparency-report-2025-.pdf \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2025-.pdf).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Grace Hawkins

Director
For Grant Thornton UK LLP

Chartered Accountants

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Headlines

This page and the following summarises the key findings and other matters arising from the statutory audit of Herefordshire Council (the 'Authority') and the preparation of the group and Authority's financial statements for the year ended 31 March 2026 for the attention of those charged with governance.

Financial statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice (the 'Code'), we are required to report whether, in our opinion, the group and Authority's financial statements:

- give a true and fair view of the financial position of the group and Authority and the group and Authority's income and expenditure for the year
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially consistent with the financial statements and with our knowledge obtained during the audit, or otherwise whether this information appears to be materially misstated.

Our audit work was completed during June–September. Our findings are summarised on pages 8 to 47. We have not identified any adjusted misstatements, and therefore there are no changes to the draft Comprehensive Income and Expenditure Statement. We have identified a number of unadjusted misstatements which have been reported on pages 30–33.

We have also raised recommendations for management, set out on pages 36–42, and reported our follow up of prior year recommendations on pages 43–47.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters:

- receipt of management representation letter
- quality review of the final set of financial statements
- receipt and review of final IAS19 assurance letter from the pension fund auditor

We have concluded that the other information to be published with the financial statements, including the Annual Governance Statement and Narrative Report, is consistent with our knowledge of the Authority and with the audited financial statements.

Our anticipated financial statements audit report opinion will be unmodified. We anticipate issuing the auditor's report following the Audit and Governance Committee on 29 September 2026.

Headlines

Value for money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice (the 'Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

We have completed our VFM work. Detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We have identified two significant weaknesses in the Authority's arrangements and so are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Please refer to the separate auditor's annual report (AAR) for full details.

Headlines

Statutory duties

The Local Audit and Accountability Act 2014 (the 'Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act
- certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of our work required under the Code. We cannot formally conclude the audit and issue an audit certificate for Herefordshire Council for the year ended 31 March 2026 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have received confirmation from the National Audit Office that the audit of the Whole of Government Accounts is complete for the year ended 31 March 2026. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2026.

Significant matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

Group audit

In accordance with ISA (UK) 600 Revised, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The table below summarises our final group scoping, as well as the status of work on each component.

Component	Risk of material misstatement to the group	Scope – planning	Scope – final	Auditor	Responsible Individual	Status	Comments
Herefordshire Council	Yes	Scope 1	Scope 1	Grant Thornton UK	Grace Hawkins	●G	All audit work is now complete.
Hoople Ltd	Yes	Scope 2	Scope 2	Williamson and Croft Audit Ltd	NA	●G	The only balance held in Hoople Ltd.'s accounts which is material to the group financial statements is their employee benefits expenditure. This balance alone has been tested in full by the group audit team (Grant Thornton UK) to ensure sufficient appropriate audit evidence over the group balances. No reliance has been placed on the component auditor. No issues have been identified from our work performed.
Cyber Quarter Ltd	No	Out of Scope	Out of Scope	NA	NA	NA	CQ are not consolidated on the basis of not being material.

Key

[Scope 1]

[Scope 2]

[Scope 3]

Out of scope

●G

●A

●R

Audit of entire financial information of the component, either by the group audit team or by component auditors (full-scope)

Specific audit procedures designed by the group auditor (specific scope)

Specific audit procedures designed by a component auditor (specific scope)

Out of scope components are subject to analytical procedures performed by the Group audit team to group materiality.

Planned procedures are substantially complete with no significant issues outstanding.

Planned procedures are ongoing/subject to review with no known significant issues.

Planned procedures are incomplete and/or significant issues have been identified that require resolution.

Our approach to materiality

As communicated in our Audit Plan dated, we determined materiality at the planning stage as £13.150 million and group materiality as £13.330 million based on 2.5% of prior year gross expenditure. At year-end, we have reconsidered planning materiality based on the draft financial statements. Based on this we have not updated materiality from our planning levels as the movement would have been within our 10% threshold.

A recap of our approach to determining materiality is set out below.

Basis for our determination of materiality

We have determined materiality at £13.150 million for the Council and group materiality at £13.330 million based on professional judgement in the context of our knowledge of the Authority and the group, including consideration of factors such as ownership concentration, debt arrangements, the business environment, and the control environment.

We have used 2.5% of gross expenditure as the basis for determining materiality.

The benchmark and percentage applied in determining materiality reflects the nature of the Council's primary objectives and has been considered appropriate.

The percentage applied has been increased from 2% applied in the prior year, following an update to Grant Thornton internal guidance and the Council no longer being classed as a Major Local Audit (MLA), as the threshold has been raised for 2025/26.

As stated above, the materiality is the same as communicated in our audit plan and so is based on 2.5% of the prior year's gross expenditure.

Performance materiality

This has been set between £8.860 million for the Council and £5.130 million for the group. The level applied reflects the relative size and risk of that component within the group.

Specific materiality

A lower materiality has been determined for the senior officers' remuneration disclosure. This has been set at £10,000 per individual officer, which covers 2 bandings in the disclosure.

Reporting threshold

We will report to you all misstatements identified in excess of £0.650 million, in addition to any matters considered to be qualitatively material.

Our approach to materiality

A summary of our approach to determining materiality is set out below.

	Group (£)	Authority (£)	Qualitative factors considered
Materiality for the financial statements	13,330,000	13,150,000	Financial statement materiality is based on 2.5% of the prior years gross cost of services expenditure.
Performance materiality	5,130,000	8,860,000	Performance materiality is based on 70% of financial statement materiality.
Specific materiality for individual senior officers' remuneration disclosure	10,000	10,000	We consider the disclosure of senior officers' remuneration to be a sensitive disclosure and therefore have applied a lower materiality.
Reporting threshold	660,000	650,000	Triviality is set at 5% of financial statement materiality.

Overview of audit risks

The below table summarises the significant and other risks discussed in more detail on the subsequent pages.

Significant risks are defined by ISAs (UK) as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement if that misstatement occurs.

Other risks are, in the auditor’s judgement, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Level of judgement or estimation uncertainty	Status of work
Management override of controls	Significant	↔	✓	Medium	G
Valuation of land and buildings	Significant	↔	✗	High	G
Valuation of investment properties	Significant	↔	✗	High	G
Valuation of the pension fund net asset/liability	Significant	↔	✗	High	G
The revenue cycle include fraudulent transactions	Rebutted	↔	✓	Low	G
The expenditure cycle includes fraudulent transactions	Rebutted	↔	✓	Low	G
Dedicated Schools Grant expenditure	Other	↑	✗	Low	G

- ↑ Assessed risk increase since Audit Plan
- ↔ Assessed risk consistent with Audit Plan
- ↓ Assessed risk decrease since Audit Plan

- G Not likely to result in material adjustment or change to disclosures within the financial statements
- A Potential to result in material adjustment or significant change to disclosures within the financial statements
- R Likely to result in material adjustment or significant change to disclosures within the financial statements

Significant risks

Risk identified	Audit procedures performed	Key observations
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	We have: - evaluated the design and implementation of management controls over journals - analysed the journals listing and determined the criteria for selecting high risk unusual journals - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness - reviewed and tested intragroup journals where relevant	Journals: In total we selected 27 journals to test following our assessment that the Council has a low risk control environment in this area. All journals have been tested back to source documents to ensure that they are valid business-related journal entries. Our audit work has not identified any issues relating to management override of controls. We have identified several control deficiencies in relation to journals. More detail can be seen in our action plan on page 36 and our review of prior year recommendations on page 43. These are low risk issues and do not impact on our opinion. Estimates and Judgements: We are satisfied that judgements made by management are appropriate and have been determined using consistent methodology. Having assessed management judgements and estimates individually and in aggregate we are satisfied that there is no material misstatement arising from management bias across the financial statements.

Significant risks

Risk identified	Audit procedures performed	Key observations
Valuation of land and buildings The Council revalues its land and buildings on a rolling five yearly basis in line with the requirements of the CIPFA code. The Council employs Wilks Head and Eve as experts to perform the valuations for most assets. Valuations of the Councils jointly owned Energy for Waste Plant are carried out by a separate valuation expert called Hilco. The valuation of land and buildings represents a significant estimate in the financial statements. It is considered a significant estimate due to its size, complexity and sensitivity to changes in key assumptions. We have therefore identified it as a significant risk for the audit.	We have: • documented our understanding management’s process and controls for the calculation of the estimate • evaluated the competence, capabilities and objectivity of management’s expert • evaluated the consistency of the disclosure with the valuation report • evaluated the basis on which the valuations have been carried out • evaluated the information and assumptions used by the valuer • evaluated the accounting entries for the valuation • the 2025/26 CIPFA Code introduced a new revaluation expedient for Property, Plant and Equipment, requiring assets to be revalued at least every five years, or on a five-year rolling programme, with interim years supported by indexation. We have reviewed management’s assumptions in selecting and applying indices to ensure that both the chosen indices and the asset groupings are appropriate.	Primary Revaluations Testing: We selected 6 assets to test giving us a coverage of 63% of the total asset value. Our testing did not identify any significant issues, and no material misstatements were noted. As in prior years we have identified variances in the floor and land areas used. In addition, an error was noted relating to the incorrect build year on one asset. Though not significant, these have resulted in an unadjusted misstatement reported on page 31-33. Assets Subject to Indexation: 108 assets with a total year end value of £279.5 million were subject to indexation in 2025/26. We have reviewed the indices recommended by the valuer and found the indices to be reasonable. We have raised a control point around the use of indices for specialised assets where we identified the valuer used the incorrect time horizon on the recommended BCIS indices. On recalculation we found that using the correct time horizon would result in a £1.1m greater valuation on specialised assets. Please refer to page 31 for more details where we have reported as an unadjusted misstatement. This has also been reported as a recommendation on page 36. Continued overleaf

Significant risks

Key observations (Continued)

Excluding specialised assets above, across all other asset classes we identified a potential overstatement of £0.9m when using our own indices. On surplus assets the difference was £0.118m understatement. This is not an error and represents an estimation difference only and so has not been reported as such. Overall, we have concluded that the indices used are reasonable and have been correctly applied.

Energy for Waste Plant Indexation:

In addition, the Council jointly owns the Energy for Waste asset which has been subject to indexation in 2025/26. This asset last received a full valuation in 2024/25. On review, we identified that the indices used for this asset are reasonable and in line with expectations. However, we have reported an unadjusted misstatement on page 31 relating to the incorrect calculation of the indexation movement. This amounted to a £0.4m understatement of the asset and is reported alongside the previous indexation error noted above.

Assets with no Indices:

As part of the indexation exercise the valuer also is instructed to identify asset classes in which they are unable to locate suitable indices. There were 29 assets with a total value of £30.4 million in which the valuer could not identify any suitable indices. These included car parks, care homes, children's centres, public conveniences and amenity land.

We have concluded that we agree that there are not specific indices for these asset types. We have performed a review using general indices for these asset types and found a potential understatement of £0.9 million on these assets. Again, this is an estimation difference rather than an error. Overall, we deem this to be reasonable.

These assets will be subject to a desktop valuation every third year.

Estimates and Judgements:

We are satisfied that judgements made by management are appropriate and have been determined using consistent methodology. Having assessed management judgements and estimates individually and in aggregate we are satisfied that there is no material misstatement arising from management bias across the financial statements

Significant risks

The below table summarises the various errors and differences identified across our PPE valuations work.

Land and Building Valuations – Table of Key Findings:		Impact:
Indexation Work (Errors)		
Error identified relating to incorrect indices for DRC assets		£1.1m Understatement
Error identified relating to incorrect indexation applied to the Energy for Waste Asset		£0.4m Understatement
		£1.5m Understatement (Reported on page 31)
Indexation Work (Estimation Differences)		
Indexed assets (Using auditors indices)		£0.915m Overstatement
Indexed Surplus assets (Using auditors indices)		£0.118m Understatement
Assets with no index (Using general indices)		£0.872m Understatement
		£0.075m Understatement (Not an error but included for information)
Primary Valuations Testing (Errors)		
Error identified relating to incorrect floor areas		£0.894m Overstatement
Error relating to build years that could not be evidenced		£0.696m Understatement
		£0.198m Overstatement (Reported on pages 32 and 33)

Significant risks

Risk identified	Audit procedures performed	Key observations
Valuation of investment property The Council revalues its investment properties every year in line with the requirements of the CIPFA code. The Council employs Wilks Head and Eve as experts to perform the valuations for all investment property assets. The valuation of investment properties represents a significant estimate in the financial statements. It is considered a significant estimate due to its size, complexity and sensitivity to changes in key assumptions. We have therefore identified it as a significant risk for the audit.	We have: • documented our understanding management’s process and controls for the calculation of the estimate • evaluated the competence, capabilities and objectivity of management’s expert • evaluated the consistency of the disclosure with the valuation report • evaluated the basis on which the valuations have been carried out • evaluated the information and assumptions used by the valuer • evaluated the accounting entries for the valuation • evaluated the reasonableness of the assumptions used to form the estimate	Our audit work has not identified any issues in respect of valuation of investment property.

Significant risks

Risk identified	Audit procedures performed	Key observations
Valuation of net pension liability The Council participates in a Local Government pension scheme administered by Worcestershire County Council. The Council is required to recognise its share of the scheme assets and liabilities in its Statement of Financial Position. An actuarial valuation is performed every year by managements expert Hymans Robertson. The Authority's share of the pension fund net liability is £3.8 million The net position comprises a gross pension liability of £539.5 million, offset by gross pension assets of £647.6 million, and adjusted by £138.5 million in respect of the impact of the asset ceiling under IFRIC 14, (see below). The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code. We have therefore concluded that the methods and models used do not in themselves give rise to a significant risk of material misstatement- (continued on following page)	We have: • documented our understanding management's process and controls • evaluated the competence, capabilities and objectivity of management's expert • evaluated the consistency of the disclosure with the actuarial report • evaluated the reasonableness of the assumptions used to form the estimate • obtained assurances from the pension fund auditor on the underlying data shared by the fund to the actuary which has been used in the calculation of this estimate • reviewed the IFRIC 14 assessment carried out by the actuary and evaluate the reasonableness of the assumptions used as part of the assessment.	We have completed our testing on the actuarial figures and have reviewed the assumptions and methods used by the actuary Hymans Robertson. We have not identified any issued to bring to your attention. All assumptions used were in line with expected benchmarks. We have reviewed the IFRIC 14 calculation relating to the asset ceiling applied. Our view is that this has been correctly calculated and the actuary's method is reasonable. We await the receipt of the IAS19 Pension Fund assurance letter.

Significant risks

Risk identified	Audit procedures performed	Key observations
Valuation of [net pension liability (continued) The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. However, the actuarial assumptions used are the responsibility of the entity, based on the advice from the actuary. Small changes in the key assumptions (such as discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore identified valuation of the Authority’s gross pension liability as a significant risk. Where a net asset position exists, the Authority has also considered the impact of ‘IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset’. This introduces additional layer of complexity in determining an asset ceiling to apply. We do not deem the IFRIC 14 assessment to be a significant risk, as the approach is established and no prior issues have been noted.		

Significant risks

Risk identified		Audit procedures performed	Key observations
17	The revenue cycle includes fraudulent transactions (Rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue	We have identified and completed a risk assessment of all revenue streams for the Council. We have rebutted the presumed risk that revenue may be misstated due to the improper recognition of revenue for all revenue streams. This is due to the low fraud risk in the nature of the underlying transactions, or immaterial nature of the revenue streams both individually and collectively.	We do not consider this to be a significant risk for the Council. During the audit we have not identified any issues which would cause us to amend this conclusion.
	The expenditure cycle includes fraudulent transactions (Rebutted) Practice Note 10 (PN10) states that as most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition. As a result under PN10, there is a requirement to consider the risk that expenditure may be misstated due to the improper recognition of expenditure.	We have identified and completed a risk assessment of all expenditure streams for the Council. We have considered the risk that expenditure may be misstated due to the improper recognition for all expenditure streams and concluded that there is not a significant risk. This is due to the low fraud risk in the nature of the underlying transactions, or immaterial nature of the expenditure streams both individually and collectively. We have also considered the possibility of inappropriate capitalisation of revenue streams. Given the strong control environment and lack of any issues of this nature identified in previous years, we do not consider that a significant risk is warranted.	We do not consider this to be a significant risk for the Council. During the audit we have not identified any issues which would cause us to amend this conclusion.

Other risks

Risk identified	Audit procedures performed	Key observations
High Needs Stability Grant / DSG Deficit Support Grant During our final accounts audit, we updated our risk assessment in relation to recognition of DSG expenditure in relation to the High Needs grant that local authorities are expected to receive in 2026-27. The grant is intended to fund 90% of eligible DSG deficits, with the remaining 10% to be met by the Council, subject to approval of the Council's recovery plan. We identified a risk relating to the recognition and classification of DSG expenditure. Specifically, there is a risk that expenditure may be inappropriately allocated to the DSG unusable reserve, resulting in costs being included within the scope of the High Needs grant that may not meet the relevant eligibility criteria.	We have: - Reviewed managements processes and controls around the recognition and classification of DSG related expenditure - Tested a sample of DSG spend to ensure appropriate classification as well as ensure that the spend has occurred - Reconciled the full years listing of DSG related spend to the ledger to ensure completeness - Considered the need for the recognition of a contingent asset in the Council’s accounts to account for the grant at year end.	We have completed our testing of DSG spend and we have not identified any issues.

Other findings – Information Technology

This section provides an overview of results from our assessment of the Information Technology (IT) environment and controls therein which included identifying risks from IT related business process controls relevant to the financial audit. This table below includes an overall IT General Control (ITGC) rating per IT application and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Unit 4 (Business World) General Ledger and Payroll	ITGC assessment (design and implementation effectiveness only)	Green	Amber	Green	Green	Management override of controls; valuation of PPE and IP; valuation of pension liability

Assessment:

- [Red] Significant deficiencies identified in IT controls relevant to the audit of financial statements
- [Amber] Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- [Green] IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- [Black] Not in scope for assessment

IT Control Findings

Our testing of the IT systems at the Council identified one non-significant control deficiency. This is detailed below:

Assessment	Issue and risk	Recommendations
● Low	From our discussions with management, we have identified a deficiency around the controls to manage user access. It has been noted that although there is an annual user review i.e. a review of users who have access to the system to ensure that individuals have the correct levels of access, this is not formally documented or evidenced.	We recommend that that this process be formally documented in the future in order that it can be evidenced for audit inspection. Management response Management will ensure that this review is evidenced going forwards.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Other communication requirements

Issue	Commentary
Matters in relation to fraud	We have not been made aware of any other incidents in the period, and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	The principal laws and regulations with which the local authority complies include, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Accounts and Audit (Amendment) Regulations 2024 and the Local Government Act 2003. We are not aware of any significant incidences of non-compliance.
Written representations	Representations have been requested from management including representation in relation to significant accounting estimates. This is included as a separate item in the agenda. No issues have been noted.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Authority’s banking and treasury partners. This permission was granted and the requests were sent. All but one were returned with positive confirmation and we undertook alternative procedures for the other which related to a loan balance with Dexia. No issues were noted.
Disclosures	Our review found no material omissions in the financial statements.
Significant difficulties	We did not identify any significant difficulties.
Other matters	There are no other matters to bring to your attention.

Other responsibilities

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2024). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • The use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • For many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. (continued)

Other responsibilities

Issue	Commentary
Going concern	Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority’s financial reporting framework • The Authority’s system of internal control for identifying events or conditions relevant to going concern • management’s going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified; and • management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Other responsibilities

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • if we have applied any of our statutory powers or duties • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Our work has not yet commenced as we await auditor instructions from the NAO.
Certification of the closure of the audit	We cannot formally conclude the audit and issue an audit certificate for Herefordshire Council for the year ended 31 March 2026 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have received confirmation from the National Audit Office that the audit of the Whole of Government Accounts is complete for the year ended 31 March 2026. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2026.

Audit adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We have not identified any adjusted misstatements and therefore there is nothing to report in this area.

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Misclassification or change identified	Adjusted?
Review of draft financial statements	During our initial review of the draft financial statements, we noted the following:	
	1. Several notes were identified with missing text such as page 15 in the narrative report where the figures for useable reserves were missing. In addition, notes 8 and 9 had missing text, management confirmed this was an issue with the PDF and will be included in the final version.	Yes
	2. In the narrative report, on page 17 the page numbers for the group accounts are stated as 92 to 97, however these are on pages 92 to 98.	
	3. On page 87 in the technical annex 2.4, the prior year comparative is incorrectly dated as 2026 when it should be 2025.	
Capital Commitments – Note 19.4	We identified that two capital commitments had been excluded from the disclosure despite contractual commitments having been entered into by the Council prior to the year end. The contracts in question are with Tarmac Trading Ltd for an amount of £2.17m and FCC Recycling Ltd for an amount of £1.04m	Yes

Audit adjustments

Misclassification and disclosure changes (Continued)

Disclosure	Misclassification or change identified	Adjusted?
Pension notes	As part of our approach to reviewing the actuary's methodology, we have identified that the actuary has not included any allowance in their calculations for the Virgin Media Ltd v NTL Pension Trustees II Ltd. Although we agree that this is a reasonable approach, we have determined that best practice is for a disclosure to be included in the accounts for this area. Management have agreed to include additional narrative in their pension note regarding this. For context, the case affects defined benefits schemes that provided contracted out benefits before 2016. Changes to this scheme between 1996 and 2016 required an actuarial certificate in line with Section 37 of the Pension Scheme Act 1993 and that changes without this certificate could be considered void. The case was taken to the Court of Appeal in 2024 and the original ruling was upheld. In June 2025 the government said it would introduce legislation to give affected pension schemes the ability to retrospectively obtain the written actuarial confirmation that historic benefit changes met the necessary standards. This has recently been passed.	Yes
Revaluation table – Note 19.2	We identified several disclosure errors where the council confirmed that certain assets had been presented in the incorrect category in this note. This was identified when reconciling the table to the fixed asset register and the PPE note 19. Certain assets that had not been subject to indexation, with a carrying value of approximately £30.4m, were incorrectly included within the "assets where indices have been applied" category. As a result, the carrying value of revalued assets was understated at £142.9m (correct: £163.9m) and the carrying value of indexed assets was overstated at £336.4m (correct: £315.3m). The total carrying value of assets included in the rolling revaluation programme remains correctly stated at £479.3m and therefore there is no impact on the Council's Accounts. This represents a presentation and disclosure error only relating to the categorisation of assets within the note.	Yes

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement	Balance Sheet	Impact on surplus/deficit of the provision of services	Impact on general fund	Managements reason for not adjusting
	£'000	£'000	£'000	£'000	
IAS19 Pension Actuarial Valuations:	NA	Dr Pension Asset 4,244	NA	NA	Impact is net nil overall and the update is not material.
To ensure the draft accounts can be finalised within reporting timeframes, management commission two IAS19 reports. The first uses 10-month actual payroll data, with two months estimates. The second using a full 12 months actuals.		Cr Asset Ceiling Adjustment 4,244			
The second report was received in May 2026, and we have reviewed this to ensure there is not a material difference. In summary, there is an overall net nil impact on the balance sheet.					

Audit adjustments

Impact of unadjusted misstatements (Continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on surplus/deficit of the provision of services £'000	Impact on general fund £'000	Managements reason for not adjusting
Property, Plant and Equipment Indexation: Our testing identified two errors in the indexation performed; 1 – An understatement of £440k was noted relating to the Energy from Waste asset where management had incorrectly calculated the indexation uplift. 2 – An understatement of specialised assets valued under the depreciated replacement cost methodology of £1,087k was identified. This stemmed from the valuer's use of indices from Q2 2025 to Q1 2026 when they should have used Q1 2025 to Q1 2026 which would account for the whole year's movement. Note that we raised a separate recommendation on this point (See page 36)	Cr Other Comprehensive Income (OCI) £1,527k	Dr Land and Buildings £1,087k Dr Plant and Equipment £440k	NA	Cr Revaluation Reserve £1,527k	Impact is not material.

Audit adjustments

Impact of unadjusted misstatements (Continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on surplus/deficit of the provision of services £'000	Impact on general fund £'000	Managements reason for not adjusting
Property, Plant and Equipment Valuations: During our testing we identified five assets which had non-significant differences in the floor areas used in the valuation compared to the council's records. The floor areas in these cases were overstated which causes the value of the assets to be overstated. This has resulted in the following unadjusted misstatement in the accounts. Note that this is similar to that identified in the prior year on the pages below. Please note that the adjustments are a mix of factual and extrapolated errors.	Dr Service Expenditure £691k Dr Other Comprehensive Income (OCI) £203k Note – The debit to service expenses is due to some of the assets impacted having no revaluation reserve balance	Cr Land and Buildings £894k	Dr Service Expenditure £691k	Dr General Fund £691k Dr Revaluation Reserve £203k	Impact is not material.

Audit adjustments

Impact of unadjusted misstatements (Continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on surplus/deficit of the provision of services £'000	Impact on general fund £'000	Managements reason for not adjusting
Property, Plant and Equipment Valuations: During our testing of the obsolescence, we identified one asset (Hereford Grafton County Caravan Site Ross Road) for which we were unable to fully evidence the build year. The build year is an important element of the obsolescence calculation. The valuer had used 1980 as a build year and Council records indicated 1992. The implication is that if the Council’s records are correct then too much obsolescence has been applied and the assets are understated. The error noted on this asset was £84k and extrapolated across the population the impact could potentially be £696k.	Cr Other Comprehensive Income (OCI) £696k	Dr Land and Buildings £696k	NA	Cr Revaluation Reserve £696k	Impact is not material.
Overall impact of current year unadjusted misstatements	Dr Services £691k Cr OCI £2,020k	Dr £1,329k	Dr £691k	Dr General Fund £691k Cr Revaluation Reserve £2,020k	

Impact of unadjusted misstatements in the prior year

The table below provides details of misstatements identified during the prior year audit which were not adjusted for within the final set of financial statements for 2024/25, and the resulting impact upon the 2025/26 financial statements. We also present the cumulative impact of both prior year and current year unadjusted misstatements on the 2025/26 financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Please note, we have only included adjustments below which we deem have an impact on 2025/26. If there is none then we have not repeated it. For context there were four unadjusted misstatements in the prior years AFR.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on surplus/deficit of the provision of services £'000	Impact on general fund £'000	Reason for not adjusting
<u>Invoices Received Testing:</u>					
We identified errors which on review could have caused a £721k overstatement of expenditure and creditor accruals in 2024/25. This would have no impact on the CIES, but the opening creditor position would remain overstated. Note that once these creditors are paid the impact will be nil.	NA	Dr Creditors £721k	NA	Cr General Fund £721k	Not material.
<u>Academy Cash Balances:</u>					
A misstatement of £1.557m has been included within the Council's cash balance which relates to schools that have become academies. Note this impacts the opening balances only, and no such issues of this nature were noted in our 2025/26 testing.	NA	Cr Cash £1,557k	NA	Dr Earmarked Reserves £1,557k	Not material.

Impact of unadjusted misstatements in the prior year

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on surplus/deficit of the provision of services £'000	Impact on general fund £'000	Reason for not adjusting
Land and building areas We identified an error in two samples where the GIA which was used in the draft valuation changed which impacted the valuation by £636k. Note that this will impact the opening balance and in year balance if not resolved in the following valuation.	Dr Other Comprehensive Income (OCI) £636k	Cr Property, Plant and Equipment £636k	NA	Dr Revaluation Reserve £636k	Not material.
Impact of prior year unadjusted misstatements on the current year's financial statements	Dr £636k	Cr £1,472k	£0k	Dr £1,472k	
Cumulative impact of prior year and current year unadjusted misstatements on 2025/26 financial statements	Cr £693k	Cr £143k	Dr £691k	Dr £143k	Overall impact is not material.

Action plan

We set out here our recommendations for the Authority which we have identified as a result of issues identified during our audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	<u>PPE Valuations - Indexation:</u> In line with the updates to the code in 2025-26, the Council are required to uprate all land and building assets not included in the annual revaluation exercise using indices. For the indexation of depreciation replacement cost (DRC) land and buildings, the Council has applied BCIS indices by comparing Q2 2025 to Q1 2026 as advised by the valuer. However, based on our analysis, the appropriate comparison should have been Q1 2025 to Q1 2026. Although the resulting variance is trivial (£1,086k understatement of asset values), we have noted this as a control point to ensure the Council applies the correct indexation periods consistently in future valuations.	We recommend the Council instructs the valuer to apply the indexation method in this manner for future years. Management response Management do not accept this recommendation and are satisfied that the index used provides a reasonable estimate of the movement in the value of the asset from the prior year. This is a difference in estimation technique between the valuer and the auditors. The asset valuer provided indices over four quarters, this is common practice in the sector and is compliant with the Code of Practice which states that "the purpose of applying indexation to asset values is to ensure the value of an asset is kept materially up to date....Absolute precision is not expected, nor is it achievable. Authorities should ensure the index used provides a reasonable estimate of the movement in the value of an asset from the prior year.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Action plan

Assessment	Issue and risk	Recommendations
● Medium	<u>PPE Valuations – Build Years:</u> During our testing of the obsolescence, we identified one asset (Hereford Grafton County Caravan Site Ross Road) for which we were unable to fully evidence the build year. The build year is an important element of the obsolescence calculation. The valuer had used 1980 as a build year and Council records indicated 1992. The implication is that if the Councils records are correct then too much obsolescence has been applied and the assets are understated. For the asset in question, the value of the difference was £84k, we have reported the extrapolated value as an unadjusted misstatement.	We recommend the Council ensures that the build years of all their assets can be suitably evidenced and is in line with that used in the valuers calculations. Management response This is the first year that the build year of assets has been included in audit testing. We will review recorded asset build years and ensure this data is supplied to the asset valuer.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Action plan

Assessment	Issue and risk	Recommendations
● Medium	Journals Testing: Herefordshire Council uses the Service Organisation Hoople Ltd as part of their journal process. Specifically, the finance team within the Council can request journals to be posted by the Finance Support Team. We identified that where a journal is processed by the Finance Support Team (Hoople Ltd, the service organisation), the original requestor (i.e., the person who emailed the support team to post the journal) is not recorded in the GL. This does not accurately reflect the original requestor of the journal, but it should be noted there are controls in place such as email trails, which will be able to highlight this for us at Y/E. There is a risk that the information regarding the journal requisitioner may be hidden or lost.	We recommend that management implements controls within the general ledger to ensure that where journals such as these are posted, the identity of the individual who requested the journal to be posted is recorded. Management response There is no system ability to include the requestor in the journal entry. The evidence attached to the journal on the system includes the requestor, so it is contained within the system. It is important to note that journal testing did not identify and inappropriate journals. We do not believe that the finding represents a risk to the financial statements.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Action plan

Assessment	Issue and risk	Recommendations
● Medium	Journals Testing: During our analysis, we observed that journals are being posted with either inadequate or no description. Furthermore, Hoople employees do not always inquire with the journal requestor regarding descriptions or for further detail on what the journal may pertain to. The system allows the Journal to be posted without description, contrary to the journal user guidance. There is a risk that inappropriate journals may be hidden where a description is not included.	We recommend that management ensures that all journal posters are aware of the need for a description to be included and that controls are implemented to ensure descriptions are included. Management response There is no system ability to mandate a journal description in all cases. Management will re-circulate guidance. It is important to note that journal testing did not identify any inappropriate journals. We do not believe that the finding represents a risk to the financial statements.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Action plan

Assessment	Issue and risk	Recommendations
● Low	Cyber Quarter Loan: The Council holds a non-material loan balance (debtor) with the subsidiary Cyber Quarter for £3.5m. The amount has been held at the same value since 2019 when the loan was made. A review of the Shareholder Committee minutes indicates that Cyber Quarter has faced financial difficulties in recent years and has not been able to make repayments to the Council on this loan. The committee minutes indicate that the if the company was to be sold then the potential shortfall on the loan could be £1.3m. We challenged management as to whether an impairment should be recognised on the loan. Management have confirmed that in their view there is no impairment on the loan and that a sale of the asset is not currently definite. If no sale takes place management expect that the loan will be fully repaid.	We recommend that for future years management perform a full credit loss analysis on the loan in line with IFRS9 which makes clear that forward looking information should be taken account of. Whilst we agree that the amounts involved are not likely to be material, we recommend that wider reviews are undertaken in line with IFRS9. Management response This activity already takes place - a full credit loss analysis was performed, and information was provided to and tested by the audit team in 2025/26.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Action plan

Assessment	Issue and risk	Recommendations
 Low	<u>Review of Expected Credit Losses (ECL):</u> We understand that managements current approach to calculating their ECL is that they do not consider individual balances below £5m. Management have provided their reasoning and shown that the cumulative balances below £5m comes to around £6m. This includes for examples the Cyber Quarter loan in the previous point. Although this reasoning is sound in terms of materiality, we disagree that this method is in line with the relevant guidance, in particular The CIPFA code which states that probability of an ECL should be considered rather than the value of the assets involved.	We recommend that going forwards management update their process to ensure that all balances are considered for ECL. This ensures that no value will be missed. Whilst we agree that in 2025-26 the values are unlikely to be material, this is a best practice area. Management response See point above.
 Low	<u>Year End Estimations:</u> Within various areas of testing in 2025-26 we have identified instances where the estimate was different to the post year end outcome. Whilst this is expected as management base their accruals on the best available information, there are some instances where the difference is larger than we would expect. In our agency cost testing we identified an accrual which was £8k greater than the invoice eventually received. When extrapolated, the potential impact of this was £3m. This serves to over recognise expenditure in the current year and under recognise it in the next.	Whilst we are confident this is not a material issue, we recommend that management revisits their year end estimation procedures where these large variances are identified and put in place measures to ensure greater accuracy of the estimates. Management response As advised in previous years, at each year end accruals are processed to ensure that income and expenditure is accounted for in the period in which the council received or provided the goods or service. Due to the strict closedown timetable, estimates may be included using judgement and reasonable expectations of value. This is common accounting practice. We will continue to ensure that a review of income and expenditure around the financial year end is undertaken to ensure accurate recording

Action plan

Assessment	Issue and risk	Recommendations
● Low	<u>Related Party Disclosures:</u> We noted that the Council's policy states that the responsibility for updating declarations of interests falls on the councillors and members who are required to notify the monitoring officer and update their declaration of interests within 28 days of becoming aware of any change. Whilst this is in line with national guidance, this has led to many councillors having not updated their declarations for multiple years. Observed best practice from local authorities audits across our portfolio is where declarations are updated on an annual basis.	To ensure best practice and that no declarations have been omitted either intentionally or accidentally we recommend that the council implement an annual review and sign off process for everyone required to make disclosures. Management response The Council does not accept the recommendation to implement an annual review and sign-off process for all individuals required to make disclosures. The Council's Constitution and Code of Conduct make clear that the responsibility for maintaining and updating declarations of interest rests with individual elected members. The Council is satisfied that the mandatory training and guidance provided to councillors offers clear and unambiguous advice on fulfilling their responsibilities for keeping their registers of interests up to date. The Council is also satisfied that it continues to promote high standards of conduct, compliance (with the Code of Conduct) to support members in meeting their obligations. Taken together, these arrangements provide appropriate assurance that the Council's standards framework is operating effectively without the need for an additional annual sign-off process.
● Low	<u>Operating Leases:</u> During our testing of the operating lease disclosures, we identified that the signed lease agreement for Hereford Leisure Centre and Golf Course (Halo Leisure Ltd) was not available for review, as it remains with the Council's Legal team. The absence of a centrally accessible executed lease agreement increases the risk that key lease terms may not be readily available to support accounting assessments and financial statement disclosures.	We recommend that the Council maintain signed lease agreements in a central repository accessible to relevant finance, property and audit personnel. Management response Lease agreements are already accessible by relevant finance, property and legal personnel. This is a one-off issue.

Follow up of prior year recommendations

We identified the following issues in the audit of the Authority’s 2024/25 financial statements, which resulted in five recommendations being reported in our 2024/25 Audit Findings Report. We have provided an update on the progress of these audit recommendations below. Please note that where an audit recommendation is still in progress, we have not repeated it in the action plan section above.

25

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Capital Financing Requirement (Medium Risk): We identified an immaterial £3.6 million potential overstatement in the reported capital financing requirement compared to our expected calculation. Management were not able to provide a suitable explanation for the variance identified and therefore we have concluded to treat it as an unadjusted misstatement. Risk Without a proper understanding of the issue, it is difficult to assess the impact on the financial statements.	Our testing of the Capital Financing Requirement in 2025/26 identified no issues other than a trivial difference between our calculated amount and the amount disclosed in the accounts. As a result, we conclude that management have resolved this issue and the recommendation can be closed.

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Journals Review Processes (Medium Risk): We noted that there is no formal review process for journals which fall below £2 million total value, or £250,000 for an individual journal line. Risk Not having robust controls around the approval of journals presents a number of risks: - Without formal approval processes, there is a lack of accountability for the accuracy and validity of journal entries. - The absence of journal approval procedures can compromise the transparency and integrity of financial records. It may result in unauthorised or unverified entries being included in the accounting system. - Not having journals approved can create opportunities for errors, misstatements, or fraudulent activities to go undetected. - Unapproved journal entries can result in inaccuracies in financial statements, potentially leading to misstated financial results and misinformed decision-making.	Our work in 2025/26 identified the same issue in that management still do not have secondary authorisation controls for all journals. A formal process is in place for those above £2m and individual journal lines above £250k. As a mitigating control management do operate monthly budget monitoring arrangements as well as segregation of duties controls to identify unusual or incorrect posted transactions. We recognise that management are somewhat limited by their accounting system to implement a full secondary authorisation system. In addition, resource constraints prevent management from reviewing all journals posted. However, given the risks involved we continue to recommend that management implement a system of secondary review of some, if not all, of the journals below the current threshold to mitigate the risks further. Management Comment: As confirmed in our management response in previous years, there are robust controls in place over the processing of journals to ensure segregation of duties with supplementary controls to ensure secondary review through routine monthly budget monitoring arrangements. This process ensures that instances of incorrect postings, at a cost centre level, are identified in a timely manner. It is important to note that journal testing did not identify any inappropriate journals. We do not believe that the finding represents a risk to the financial statements.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Journals Review Processes (Medium Risk): For journals posted throughout the year which fall above the £2 million/£250k authorisation limit, we noted that only an excel spreadsheet is maintained which summarises the journals but does not show any evidence that these have been appropriately reviewed.	During 2025/26 we have reviewed the control once again and identified that the same process in is place as in previous years, being a review which takes place on an excel spreadsheet. We recognise that management have made a number of improvements over the past several years e.g. adding information on the review timing and the reviewer to ensure there is evidence of review.
	Management have assured us that the review takes place in practice, however without any evidence of this we have not been able to verify if that is the case.	However, we still consider that this process of reviewing journals in a spreadsheet, outside the ledger system, is at risk of manipulation; although we recognise that the Council is limited by the functionality of their accounting system.
	Risk There is a risk that the expected review and approval of journals is not taking place in practice. Please see page 51 for a discussion of the risks associated with a lack of robust journals approval processes.	Management Comment: As confirmed in our management response in previous years, there are robust controls in place over the processing of journals to ensure segregation of duties with supplementary controls to ensure secondary review through routine monthly budget monitoring arrangements. This process ensures that instances of incorrect postings, at a cost centre level, are identified in a timely manner. It is important to note that journal testing did not identify any inappropriate journals. We do not believe that the finding represents a risk to the financial statements.

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Cut Off Testing (Medium Risk): From our testing, we have identified several instances of the accruals concept not being appropriately applied. Although we are satisfied that the impact on the accounts is not currently likely to be material. Risk Not consistently applying the accruals concept presents a number of risks: 1. Not applying the accruals concept can result in misleading financial statements that do not accurately reflect the Authority's financial position and performance. 2. Inaccurate financial reporting resulting from not applying the accruals concept can hinder effective planning and decision-making. 3. Without the accruals concept, the valuation of assets, liabilities, and equity can be distorted, impacting the organisation's overall financial position and performance measures.	In 2025-26 our view is that the situation with regards to year end cut off has significantly improved compared to 2024/25. However, we did still note errors in our testing. Our testing of post year end invoices raised identified three instances where a year end accrual had not been made, leading to income being understated in 2025/26 by £175k. Following this we extended our testing and no further issues were noted. However, our view is that this recommendation is still open. Although we do recognise that the situation has improved. Management Comment: As confirmed in our management response in previous years, at each year end accruals are processed to ensure that income and expenditure is accounted for in the period in which the council received or provided the goods or service. Due to the strict closedown timetable, estimates may be included using judgement and reasonable expectations of value. This is common accounting practice. We will continue to ensure that a review of income and expenditure around the financial year end is undertaken to ensure accurate recording.

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Property, Plant and Equipment Floor Areas (Medium Risk): We identified that incorrect floor area data had been used in the valuation of the property, plant and equipment. We are satisfied that the impact of the error is unlikely to be material however we have only reviewed a sample of assets. Risk There is a risk that the property, plant and equipment could be misstated as a result of using inaccurate data	Our work in 2025/26 identified the same issues. We identified five assets in which the floor areas have been overstated, directly causing overstatements in the valuations. Whilst this is not significant, we have reported an unadjusted misstatement in 2025/26. Our view is that this area remains not fully resolved. Management Comment: As confirmed in our management response in previous years, we have continued to review the floor area evidence to provide assurance over data integrity.

Assessment

- ✓ Action completed
- X Not yet addressed

Value for Money arrangements

Approach to Value for Money work for the year ended 31 March 2026

The National Audit Office issued its latest Value for Money guidance to auditors in March 2026. The Code requires auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Additionally, The Code requires auditors to share a draft of the Auditor's Annual Report (AAR) with those charged with governance by 30th November each year from 2025-26. Our draft AAR will be reported to you on 29 September Audit and Governance Committee. In undertaking our work, we are required to have regard to three specified reporting criteria. These are as set out below.



Financial sustainability

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



Governance

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



Improving economy, efficiency and effectiveness

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

In undertaking this work we have identified two significant weaknesses in arrangements relating to financial sustainability. Please refer to our separate Auditor's Annual Report for full details of our findings.

Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, there are no independence matters that we would like to report to you.

We are required to report to you details of any breaches of the requirements of the FRC Ethical Standard, and of any safeguards applied and actions we have taken to address any threats to independence. No such breaches have been identified.

We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in February 2025 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Independence considerations

As part of our assessment of our independence, we note the following matters:

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Authority or group that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Authority or group or investments in the group held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Authority or group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Authority or group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Authority/group, senior management or staff (that would exceed the threshold set in the Ethical Standard).

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council’s Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

Fees and non-audit services

The following tables set out the total fees for audit and non-audit services that we have been engaged to provide or charged from the beginning of the financial year, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

The below non-audit services are consistent with the group’s policy on the allotment of non-audit work to your auditor.

None of the below services were provided on a contingent fee basis. We confirm that the fees from non-audit services to the audited entity and its controlled entities do not exceed 70% of the total audit fee for the year.

For the purposes of our audit, we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Herefordshire Council. The table summarises all non-audit services which were identified. We have adequate safeguards in place to mitigate the perceived self-interest threat from these fees.

Note that all fees shown are exclusive of VAT.

Audit fees	£
Audit of Authority (Scale Fee)	398,277
Additional Fee re IFRIC 14 Pensions work	3,000
Total	401,277

Non-Audit fees	Housing Benefit (£)	Teachers Pension (£)
Fees relating to 2021-22	58,698	7,500
Fees relating to 2022-23	91,511	10,000
Fees relating to 2023-24	72,750	12,500
Total	222,959	30,000

Please note the following:

- We are required to report to you all non audit fees which were either performed or billed within the audit period. For this reason, we have reported fees that relate to prior years audit services which meet these criteria.
- The non audit fees above represent total fees for that service which may have been billed over several years, a reconciliation with the draft accounts audit fees note in the accounts is on the next page.
- The fees for 2023-24 have not yet been billed, these are therefore estimated total fees. The work for these services is still in progress. Services for 2024-25 and beyond have not taken place up to the year end date and so are not reported here.

This covers all services provided by us and our network to the group /Authority, its senior officers and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

Fees and non-audit services

The tables below show the total non audit fees as per the previous page but split between when they were disclosed in the financial statements. The difference arises due to when audit services are billed. Given that these services stretch over several years, the billing has taken place over the same period. We have colour coded the below to allow the figures to be traced more easily.

Non Audit fees	Housing Benefit (£)	Teachers Pension (£)	Totals (£)
Fees relating to 2021-22 (Presented in current year)		2,000	Per accounts note 18 (2025-26 Column) 29,000
Fees relating to 2021-22 (Presented in prior years)	28,698	5,500	Per accounts note 18 (2024-25 Column) 68,000
Fees relating to 2021-22 (To be presented in future years)	30,000		Presented in prior years accounts comparatives 63,146
Fees relating to 2022-23 (Presented in prior years)	28,698	10,000	Fees to be presented in 2026-27 note 92,813
Fees relating to 2022-23 (To be presented in future years)	62,813		Total 252,959
Fees relating to 2023-24 (Presented in current year)	27,000		
Fees relating to 2023-24 (Presented in prior years)	45,750	12,500	
Total	222,959	30,000	

Please note the following:

- There is £92,813 of fees relating to Housing Benefits for 2021-22 and 2022-23 has not yet been included in any Herefordshire Council accounts. This is because these represent additional fees upon the finalisation of these services which were billed post 2025-26-year end. As a result, these will have been paid in 2026-27, and we expect these to be disclosed in the 2026-27 accounts.
- All other fees are either disclosed in the current years accounts or have been disclosed in prior periods.

Fees and non-audit services

Assurance Service Fees

Service	Fees £	Threats Identified	Safeguards applied
Certification of housing benefit subsidy claim 2021-22	58,698	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £222,959 in comparison to the total fee for the audit of £401,277 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of housing benefit subsidy claim 2022-23	91,511	Self-review (because Grant Thornton provides audit services)	
		Management (as Grant Thornton reports to the grant paying body)	
Certification of housing benefit subsidy claim 2023-24	72,750		

These fees relate to prior periods but have continued to be delivered into 2025/26 and therefore, are included above. Note that the fee for 2023-24 has not yet been agreed but shown above is the best estimate. We intend to continue providing the service for 2024/25 and beyond, but no fees have been agreed or work completed.

Fees and non-audit services

Assurance Service Fees

Service	Fees £	Threats Identified	Safeguards applied
Certification of teachers' pension claim 2021-22	7,500	Self-Interest (because this is a recurring fee) Self-review (because Grant Thornton provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £30,000 in comparison to the total fee for the audit of £401,277 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of teachers' pension claim 2022-23	10,000	Management (as Grant Thornton reports to the grant paying body)	
Certification of teachers' pension claim 2023-24	12,500		
Total Non-Audit Fees	252,959		

These fees relate to prior periods but have continued to be delivered into 2025/26 and therefore, are included above. Note that the fee for 2023-24 has not yet been agreed but shown above is the best estimate. We intend to continue providing the service for 2024/25 and beyond, but no fees have been agreed or work completed.

Appendices

A. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant matters in relation to going concern	●	●
Matters in relation to the group audit	●	●
Views about the qualitative aspects of the Group’s accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●

A. Communication of audit matters with those charged with governance

Our communication plan

	Audit Plan	Audit Findings
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all relevant members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.



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Title of report: Annual Governance Statement 2025/26

Meeting: Audit and Governance Committee

Meeting date: Tuesday 25 March 2025

Report by: Director of Finance, Chief Accountant

Classification

Open

Decision type

This is not an executive decision

Wards affected

Purpose

To seek the view of the committee as to whether the Annual Governance Statement (AGS) for 2025/26 properly reflects the internal control environment the council is operating in and the appropriateness of actions identified to improve governance arrangements.

Recommendation(s)

That:

- a) **The Audit and Governance Committee determines whether the Annual Governance Statement (AGS) for 2025/26 at Appendix A properly reflects the internal control environment the Council is operating in and the appropriateness of actions identified to improve governance arrangements.**

Alternative options

1. None; the publication of an Annual Governance Statement is a requirement of the Accounts and Audit (England) Regulations 2015.

Key considerations

2. The council is required, as part of an ongoing review of the effectiveness of its governance arrangements, to produce an AGS which forms part of the Annual Statement of Accounts. The AGS is primarily retrospective. It reports on the governance framework and internal controls in place for the financial year 2025/26 and considers any significant governance issues up to the

date of publication of the audited Statement of Accounts. The AGS notes actions taken or proposed to address the governance issues identified.

3. The AGS is informed by Directors and Statutory Officers' declarations, reviews of compliance with laws and regulations, corporate strategies, policies, plans and arrangements and internal audit reports and opinions. It will be updated to include any governance issues identified between the balance sheet date and publication of the statutory accounts.
4. The AGS is a review of activities to ensure that the council's internal control and governance framework is operating effectively. The statement explains how the council has discharged its governance responsibilities during 2025/26 and the key governance mechanisms in place to manage risks of failure in delivering outcomes and decision making.
5. The preparation and publication of the AGS has been undertaken with reference to the seven core principles of good governance as identified in the Chartered Institute of Public Finance (CIPFA) Delivering Good Governance in Local Government Framework 2016 and 2025 Addendum.
6. This CIPFA guidance advises that statements should be meaningful but brief, high level, strategic and written in an open and readable style, and should include:
 - a. an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance;
 - b. reference to and assessment of the effectiveness of key elements of the governance framework (set out in the code of corporate governance) and the role of those responsible for the development and maintenance of the governance environment, such as the council, the executive, the audit committee, internal audit and others as appropriate;
 - c. an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework;
 - d. an agreed action plan showing actions taken, or proposed, to deal with significant governance issues;
 - e. reference to how issues raised in the previous year's annual governance statement have been resolved; and
 - f. a commitment to monitoring implementation as part of the next annual review.
7. There are a number of components that contribute to the draft AGS including Statutory officer comments, Director Assurance Statements, the work of Internal Audit and annual opinion provided by the Head of Internal Audit, Member assurance through annual reports of Committee chairs and the findings of external assessments from external audit, inspectorates, regulators and the Local Government Association Corporate Peer Challenge.
8. The actions identified to deliver continuous improvement in governance arrangements following the review will form part of an action plan and progress will be reported to this committee.

Community impact

9. Corporate governance is the term used to describe the systems, processes, culture and values the council has established to ensure we provide the right services, to the right people in a

timely, open, and accountable way. Good corporate governance encourages better informed longer-term decision-making using resources efficiently and being open to scrutiny with a view to improving performance and managing risk.

10. The annual review ensures that our arrangements are effective in supporting achievement of the council's vision and county plan priorities.

Environmental Impact

11. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
12. The annual review ensures that our arrangements are effective in supporting achievement of the council's vision and county plan priorities.

Equality duty

13. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
14. The mandatory equality impact screening checklist has been completed for this activity, and it has been found to have no impact for equality.

Resource implications

15. Whilst the recommendations themselves do not have a direct resource implication, some of the actions may result in additional expenditure. Where this is the case separate governance will take place. The AGS does take resource to produce and deliver action plans, but these are from existing staffing. If the committee proposes further actions, the resource implications of implementing those actions will need to be considered.

Legal implications

16. The Accounts and Audit (England) Regulations 2015 include a requirement for all councils to produce an AGS and set out the timescales by which they must be published. Approval of the statement ensures that the council will comply with these requirements.

Risk management

17. The statement itself identifies any high level or strategic governance risks, and the action plan provides mitigation to those risks.

Risk / opportunity	Mitigation
Not all relevant information is captured	There are several routes to collecting information – including additional feedback to finalise the AGS.

Not all gaps in assurance are covered	Where there are gaps in information internal audit will be considered; inspections and peer reviews.
There are insufficient resources to implement required improvements	Though no direct resource implications, additional activity may lead to a resource impact and this will be monitored and managed via routine budget monitoring arrangements.

Consultees

18. The consultees have largely been internal, with internal and external audit, and members of the Audit and Governance Committee commenting on the draft. Independent persons will be asked for their view on the draft AGS, along with internal and external audit. This has influenced the final version presented to the Audit and Governance Committee.

Appendices

Appendix A Annual Governance Statement 2025/26

Background papers

None identified.

Governance statements



Annual governance statement

Introduction

The Annual Governance Statement is a review of our activities to ensure that the council is carrying out its functions effectively. The quality of governance arrangements is paramount to enable the council to make decisions using high-quality information supported by a comprehensive understanding of risk. This statement explains how the council has discharged its governance responsibilities during the period from 1 April 2025 to 31 March 2026, the key governance mechanisms in place and planned improvements for 2026/27 and beyond.

Our risk management process is a key part of our governance arrangements and provides assurance that:

- our business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and properly accounted for; and
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

The purpose of the Governance Framework

The council is committed to improving governance through a process of continual evaluation and review, delivered through the seven principles of good governance as identified in the Delivering Good Governance in Local Government Framework 2016 and supported by the council's Constitution and processes which strengthen corporate governance.

Our system of internal control is designed to manage risk to a reasonable level and is based on an ongoing process to identify and manage risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically. It cannot eliminate all risk of failure but provides reasonable assurance of effectiveness.

This Annual Governance Statement is published in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework 2016 and 2025 Addendum. The council aims to achieve good standards of governance by adhering to the seven core principles below:



Annual governance statement

Overview of Governance Framework

Key elements of the council's governance framework, which have been in place throughout 2025/26 are set out below:

Leader, Cabinet and Council

The council operates a leader and cabinet model of governance in which the Leader and Cabinet are responsible for all of the council's executive functions except those required by law or the Constitution to be undertaken by full Council.

Decision Making

Decisions may be taken by full Council, Cabinet, individual Cabinet Members (for decisions that sit within their portfolio areas), Committees and Sub-committees and Officers who have been delegated specific responsibilities in accordance with the council's scheme of delegation and financial procedure rules. There is an approved governance process for each type of decision, supported by the legal requirements and provisions set out in the council's Constitution.

Risk and Performance Management

The council's risk management arrangements ensure operational and strategic risks are managed effectively to support increased performance and delivery of corporate priorities. Identified risks and mitigating controls are monitored through Service, Directorate and Corporate Risk Registers, reported to the Corporate Leadership Team and Audit and Governance Committee.

Statutory Officers

- Head of Paid Service (the Chief Executive): responsible for the operational management, leadership and delivery of services across the council, supported by the senior Leadership team comprising Corporate Directors from the three directorates: Community Wellbeing, Children and Young People, Economy and Environment, together with the corporate directors.

- Director of Governance and Legal Services (the Monitoring Officer): responsible for maintaining the Constitution and ensuring that functions act in accordance with the Constitution and relevant legal requirements. These arrangements include overseeing the ethical conduct of the council and the production of associated codes, conventions and protocols.
- Chief Finance (Section 151) Officer: responsible for the oversight and delivery of financial management arrangements; achieved through a robust financial control framework, financial procedure rules, a scheme of delegation and an independent and objective Internal Audit function.
- Statutory Scrutiny Officer: responsible for promoting the role of the council's Scrutiny Committees within the council and providing guidance and support to Scrutiny Members. This role cannot be held by the Head of Paid Service, Monitoring Officer or Chief Finance Officer.

Corporate Leadership Team

The council's Corporate Leadership Team (CLT) is collectively responsible for ensuring that effective governance arrangements are in place and are subject to regular review. CLT provides leadership, determines policy and upholds expected standards of behaviour.

Scrutiny Committees

Scrutiny is a statutory role fulfilled by councillors who are not members of the Cabinet. The role of the scrutiny committees is to help develop policy, to carry out reviews of council and other local services, to provide effective challenge and to hold decision makers to account for their actions and decisions.

Audit and Governance Committee

The Audit and Governance Committee oversees the council's audit and corporate governance arrangements and provides independent assurance on the adequacy of the risk management framework and internal controls. The Committee considers annual audit plans and reports of internal and external auditors.

Annual governance statement

External Audit

External Audit provides an opinion on the council's annual Statement of Accounts and review the council's Value For Money (VFM) arrangements which are designed to secure economy, efficiency and effectiveness in its use of resources.

Internal Audit

Internal Audit provides an independent and objective opinion on the council's governance, risk management and control environment; evaluating effectiveness through a risk-based approach. The annual Internal Audit Plan comprises: operational audit reviews, cross-cutting governance audits, annual review of key financial system controls, IT audits, grant assurance work and any other special or unplanned review, aligned to the council's corporate risks.

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Review of Effectiveness

The review of effectiveness is informed by the work of Senior Officers and managers with responsibility for the design and maintenance of an effective governance environment. It is also informed by the work of Internal Audit and the annual opinion provided by the Head of Internal Audit, Member assurance through annual reports of Committee chairs and the findings of external assessments from external audit, inspectorates, regulators and the Local Government Association Corporate Peer Challenge.

The results of the annual review of the effectiveness of the council's governance arrangements during 2025/26 are set out below and demonstrate how the council has complied with the seven principles of the CIPFA/Solace Framework.

Areas for improvement, where it is recognised that governance arrangements could be further strengthened, are included as part of the assessment and these are supported by a detailed action plan. Progress against the plan will be reported to Audit and Governance Committee to ensure that work is undertaken to deliver the identified improvements.

Assessment of the effectiveness of governance arrangements during 2025/26

Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Key aspects of the council's governance arrangements during 2025/26:

We have arrangements in place to provide assurance that our values are upheld, and that members and officers demonstrate high standards of conduct and behaviour to comply with laws and regulations. These include:

- We have reviewed and refreshed the council's Using Artificial Intelligence (AI) Policy with a focus on setting clear expectations on the use of AI tools and introducing eight 'our Herefordshire AI principles' to ensure AI is used safely, ethically and legally.
- Mandatory training completed in 2025/26 included modules which support decision making and reporting: Information Access & Information Governance, Information Security, Equality, Diversity & Inclusion (EDI). The council has achieved its highest completion rates for mandatory training this year with over 98% of staff having completed the modules before the deadline against a target completion rate of 95%.
- The Employee Code of Conduct and supporting Employee Interest Policy and Employee gifts and hospitality Policy set out rules for dealing with employees' interests. Each employee is required to make an annual return with regard to personal interests, in addition to declaring any gifts and hospitality or interests as they arise.
- Improvements have been delivered in supporting employees to declare interests. Employees are required to declare interests on day one when joining the council, on an annual basis and when completing the Employee Code of Conduct mandatory training module.
- Risk management training has been delivered to Cabinet and the council's Leadership Group and tailored support is provided to risk owners and Service and Directorate teams as part of routine risk management activity.
- An update on the operation of the employee Whistleblowing Policy was reported to Audit & Governance Committee in October 2025 to provide assurance on the effectiveness of arrangements in place for employees, and others, to raise concerns that may be in the public interest.
- In July 2025, Audit & Governance Committee received an update on the number of exemptions to the council's Contract Procedure Rules to provide assurance of appropriate oversight and compliance with the rules.

Annual governance statement

- The Shareholder Committee forms part of the overall governance arrangements for Herefordshire Council in relation to companies and other legal entities which are wholly or partly owned or controlled by the Council. The Committee has met during 2025/26 to review the position and performance of companies in which the council has a legal interest. The Committee ensures the council's interests are monitored so that financial and other risks can be escalated as appropriate.
- Engagement through Leadership Group, All Staff Briefings and collaboration across Corporate Leadership Team and individual Directorate Teams has taken place throughout 2025/26 ensuring that information about the council's strategic priorities and planned activity is shared in a timely way to enable informed decision making at all levels across the organisation.
- Additional training has been delivered through the council's Leadership Group in 2025/26 for officers to share across their teams including risk management and governance and decision making.
- Equality Impact Assessment (EIA) guidance was revised in 2025 to incorporate the impact of cost increases on certain protected characteristics and a new template developed to ensure compliance on completion of EIAs and Equality Impact Screening Checklists.
- We have continued to review the council's Constitution and associated documents to strengthen arrangements for business cases for capital schemes and to clarify processes for public and Member questions, committee member substitutions and the publication of Records of Operational Decisions (RoODs).
- The council has arrangements in place to monitor and assess the ethical behaviour of external service providers across commissioning and contract lifecycles. Procurement and pre-contract due diligence includes a review of providers' Equal Opportunities and Environmental policies, the measures in place to prevent slavery and human trafficking within their business and supply chains, and suppliers are required to comply with the council's whistleblowing policy. Contract and performance management arrangements monitor the delivery of safe, lawful and

ethical services and external oversight and challenge is provided through multi-agency quality and safeguarding forums.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- We will continue to review the Using Artificial Intelligence (AI) Policy, with oversight throughout the year by the Information Governance Steering Group.
- We will continue to promote a culture of accountability and strong ethical values through mandatory learning modules in 2026/27.

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

Key aspects of the council's governance arrangements during 2025/26:

- The Chief Executive and Corporate Leadership Team are committed to ensuring that employee feedback is sought, listened to and acted upon. To promote engagement, maintain effective employee relations and share information, monthly all staff briefings are hosted by the Chief Executive and Leadership Group.
- Continued engagement with staff through the Chief Executive's weekly staff update to share staff news, wellbeing advice, training and development opportunities and relevant partner news.
- A multi-year communications strategy has been developed and approved, aligned with Council Plan priorities and timeline. It includes a capability plan to bolster nine key areas, including channels, content, commissioning and coordination. The most recent performance data underlines improvements in reach, followers, engagements and video views. This refreshed activity has been effective in engaging audiences more directly and a number of campaigns have supported key organisational priorities including Children's Services recruitment.

Annual governance statement

- Political Group Consultations to inform decisions with financial or community significance; to provide a political viewpoint for officers to capture in key decision reports and demonstrate the council's commitment to encourage cross party engagement in decisions before they are taken.
- A Record of Operational Decision (RoOD) and/or a Key Decision is published for contracts awarded above the threshold determined by the Contract Procedure Rules and Constitution. This ensures openness and transparency in decision-making, in line with The Openness of Local Government Bodies Regulations 2014.
- As part of consultation on proposals for the 2026/27 revenue budget and capital programme, the council invited residents and stakeholders to consider funding choices and the impact of changes in income and expenditure on the delivery of services through an online budget consultation. Engagement also asked for feedback on priorities for the 2026/27 budget and council tax increase options.
- Acting on feedback from employee surveys that staff wanted more opportunities to contribute ideas and opinions, an additional budget survey was undertaken, encouraging staff to share ideas and shape decisions with specific feedback provided via an all staff briefing session.
- Feedback from events and surveys to inform the council's corporate priorities. Consultations and surveys, to engage the views of stakeholders, during 2025/26 included: Herefordshire Local Transport Plan 2025-2041, 2026/27 Budget proposals, local cycling, walking and wheeling infrastructure plan, regeneration of Merton Meadow, the Local Government Boundary Commission electoral review, Homelessness Prevention and Rough Sleeping Strategy and Hereford 2050 City Masterplan.
- The council has engaged with key stakeholders and partners on the development of a targeted, focused delivery plan for the overarching Big Economic Plan. This included consultation and challenge with input from Members, officers, the Economy & Place Board, Skills Board and Business Growth Board.
- A Steering Group was established by political Group Leaders in 2025/26 with collaboration to produce the council's response to the

Foundational Strategic Authority and Spatial Development Strategy Government consultation.

- A Major Projects Delivery dashboard was developed during 2025/26 with a monthly update provided to Corporate Leadership Team and Cabinet. The dashboard highlights the key dates and decisions as well as Lead Officers, planned activity and risk status in respect of each of the council's major and capital projects. This process has ensured additional oversight of risks in the delivery of projects. This is in addition to the individual project boards and Member and Officer project specific working groups.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- Arrangements to enhance and strengthen governance, internal challenge and oversight of the council's major and capital projects will continue in 2026/27 through Project Assurance Reviews. This internal process will identify areas where controls can be strengthened to support successful project delivery. Each review will consider programme management, adequacy of project plans, risk management arrangements, capacity and capability of project and technical teams, budget monitoring and reporting and project governance and reporting arrangements.
- The council will continue to develop relationships with partners and statutory organisations through the Nutrient Management Board and river-health related initiatives to strengthen collaboration.
- The process of responding to recommendations made by the council's Scrutiny Committees will be strengthened in 2026/27 to ensure responses are provided within the constitutionally required two-month period. A new recommendation action tracker is being developed alongside current arrangements and dedicated scrutiny webpages will include information on task and finish group activity and recommendations. This will provide greater public visibility and transparency of the scrutiny function.

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Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

Key aspects of the council's governance arrangements during 2025/26:

- The Herefordshire Council Plan 2024-2028, alongside the Medium-Term Financial Strategy 2026/27 to 2029/30, provides the overarching policy framework within which decisions will be taken and resources allocated over the next four years. The Council Plan sets out the council's vision across four priority areas: People, Place, Growth and Transformation. The annual Delivery Plan underpins the Council Plan and individual Service Plans provide a framework to support effective performance management and to ensure activity is aligned to the priorities and principles of the Delivery Plan and Council Plan.

People: We will enable residents to realise their potential, to be healthy and to be part of great communities who support each other. We want all children to have the best start in life.

Place: We will protect and enhance our environment and ensure that Herefordshire is a great place to live. We will support the right housing in the right place, we will support access to green spaces and we will do everything we can to recover the health of our rivers.

Growth: We will create the conditions to deliver sustainable growth across the county; attracting inward investment, building business confidence, creating jobs, enabling housing development along with providing the right infrastructure.

Transformation: We will be an efficient council that embraces best practice, delivers innovation through technology and demonstrates value for money.

- Progress against the 2025/26 Delivery Plan has been monitored and reported through the quarterly Cabinet report, progress reporting to the Corporate Leadership and through annual service plans and individual performance and development plans.

- The 2026/27 Delivery Plan, approved by Cabinet in March 2026, includes key deliverables and milestones not completed in 2025/26 to be monitored for delivery in 2026/27, alongside new deliverables and milestones to progress the key objectives within the Herefordshire Council Plan set against the priorities of People, Place, Growth and Transformation.
- The annual Delivery Plan is informed by the key characteristics of Herefordshire, as outlined on Understanding Herefordshire (the council's Joint Strategic Needs Assessment). Factors such as rurality, the ageing population and social mobility for our young people are key drivers at the heart of the vision, priorities and objectives.
- A Cabinet Task & Finish group was established in 2025/26 to update the Carbon Management Plan (CMP) and action plan to improve focus and consistency of the council's emissions reporting and targeted actions. The completed Plan will be approved by Cabinet for implementation in early 2026/27.
- The Herefordshire Climate and Nature Board has met regularly in 2025/26. Officers have worked on carbon budget modelling for energy, buildings, domestic, land use and agriculture and waste management and transport to inform the Board's priority actions. A Climate and Nature networking event was held during the year with attendance from key stakeholders across the county. This event served as an opportunity for the Board to update the outcome of modelling activity and share key themes and future priorities.
- The Greener Footprints communications channels and e-bulletin aim to support the county's response to climate and nature emergencies. These sources highlight schemes offered by the council including the Warm Homes Local Grant, Biodiversity and Nature grant scheme, community car clubs, biodiversity schemes for schools, business energy grants as well as initiatives provided by other local organisations.
- Decision making across the council is supported by a clear governance framework and this ensures appropriate review and challenge of information across relevant teams including Finance, Legal, Governance, Risk, Equalities. Where appropriate, decisions are aligned to the priorities of the approved Council Plan. Cabinet

Annual governance statement

and Committee reports set out the environmental implications of recommendations for consideration as part of decision making.

- The Finance Procedure Rules and Contract Procedures Rules were updated in 2025/26 to incorporate the legislative requirements of the Procurement Act 2023 and Procurement Regulations 2024; updates were approved by the Audit & Governance Committee.
- The council has proactively led sub-regional engagement in identifying a future basis for devolution through establishing a proposed Foundation Strategic Authority and Spatial Development Strategy area economic partnerships. Key analysis has been undertaken to consider economic partnerships and interdependencies and sectoral and strategic alignment across the wider region. In 2025 a Steering Group of the political Group Leaders was formed to engage public sector, community and private sector leaders as well as all locally elected members and Members of Parliament.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- The council will continue to engage with the Ministry of Housing, Communities and Local Government (MHCLG) and Leaders and Chief Executives from neighbouring local authorities to explore opportunities for Herefordshire as part of Foundation Strategic Authorities and Spatial Development Strategy geographies.
- The council will continue to work with strategic partners, residents and local organisations to reduce carbon emissions and achieve improved energy efficiency, energy resilience and cost savings. Activity through the Carbon Management Plan 2026/27 to 2030/31 will contribute to key local goals and wider national objectives by 2030.
- A review of the commissioning strategy will take place in 2026/27 including the introduction of a low entry commissioning framework to support engagement with the Voluntary, Community and Social

Enterprise (VCSE) sector and development of a social value approach as part of wider commissioning and procurement.

Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

Key aspects of the council's governance arrangements during 2025/26:

- The council has robust processes in place to support financial planning and sustainability. The budget is informed by the Medium-Term Financial Strategy (MTFS) with key risks and assumptions clearly identified and reported to Members. The budget setting process identifies financial pressures and risks to achievement of approved savings, and these are subject to challenge and scrutiny by relevant stakeholders.
- Updates to Cabinet in 2025/26 included the Annual Review of Earmarked Reserves, setting out the council's approach to maintaining appropriate levels of reserves to respond to future risks, and an update on the MTFS to highlight headlines from the Spending Review and potential impact of local authority funding reform on the council's future financial position.
- The Dedicated Schools Grant (DSG) position and impact of Special Educational Needs and Disabilities (SEND) Reform and the High Needs Stability Grant on the council's overall financial position has been reported through Schools Forum, Cabinet and Scrutiny Committees.
- Development of the 2026/27 revenue budget and capital programme included increased engagement and transparency across Group Leaders, and their political groups, to share information on the potential outcome of the fair funding review and its impact on the council's revenue budget and capital programme.
- Monthly Budget Board meetings of Corporate Directors and Service Leads, the Chief Executive and S151 Officer, have taken place throughout 2025/26 to monitor key Directorate pressures and challenges in the delivery of savings, and to identify action plans to manage cost pressures and mitigations for 'at risk' savings. This

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activity has been supported by Directorate led Savings Boards and Expenditure Control Panels.

- Performance against actions from the council's Delivery Plan was reported quarterly to Cabinet during 2025/26.
- Responsibility for the delivery of the council's strategic objectives lies with individual Directorates and this is monitored through individual Directorate Plans, Service Business Plans and Individual Personal Development Plans to ensure the alignment of individual activity to corporate ambitions.
- Finance, Service and Performance teams have worked throughout 2025/26 to identify improvements and strengthen the links between activity and financial data which inform monthly forecasts and budget setting.
- A cross-party Housing Working Group was established in 2025/26 to address the county's critical housing needs and increasing demand for temporary accommodation. The council has supported a whole-Herefordshire collaboration approach to respond to the shortage of local housing with registered providers.
- The Herefordshire Business Growth Board was established in 2025/26. The Board will play a key role in driving the economy, supporting business growth, promoting innovation and collaboration and championing inward investment in Herefordshire.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- New commissioning workstreams will be implemented in 2026/27: Care in Your Home, Working Age Adults Support and Care Home Partnership. These workstreams will ensure that interventions are targeted to individuals' needs whilst improving control of expenditure.
- A tailored Herefordshire Council Outcomes Framework will be used to enhance performance monitoring and reporting in 2026/27 alongside an internal performance management tool to support self-

service and bespoke reporting against key performance indicators and Delivery Plan milestones.

- Quality Circles are based on the idea that an employee doing a certain task is the most informed on that topic and best placed to develop solutions through innovation. A pilot of Quality Circles will be implemented in Children's Services in April 2026 as a mechanism to support staff to contribute to improvement and performance of the services. The effectiveness of this activity will be evaluated at the end of 2026/27.

Improvement and transformation of children's social care has been the council's highest priority, and a significant governance issue, since the Ofsted review of the service in July 2022.

Following the Inspection of Local Authority Children's Services (ILACS) that took place in November 2025, Herefordshire Council's Children's Services have been rated 'Good' overall by Ofsted, with each specific service area receiving a 'Good' judgement and the 'Impact of leaders on social work practice with children and families' judged as 'Outstanding'. This rating reflects the hard work and dedication of practitioners, managers, Members and partners in the delivery of improvements through the Herefordshire Children's Services and Partnership Improvement Plan.

Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

Key aspects of the council's governance arrangements during 2025/26:

- Regular meetings between the three 'Golden Triangle' statutory officers (Head of Paid Service, Chief Finance Officer and Monitoring Officer) have taken place throughout 2025/26. These meetings, to review current and potential future political, financial, legal, staffing and other issues that may impact on delivery of the statutory duties, and the constructive work relationship between the three statutory officers form a key element of overall governance arrangements.

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- The council's leadership development programme (@LeadHC) was launched in 2025/26 to address gaps in the learning and development offer and strengthen leadership skills and capabilities. The programme aims to develop inspirational leaders across four themes: Grow, Aspire, Empower, Innovate.
- The first cohort of delegates in the Aspire and Empower programmes have 'graduated' with positive support and feedback across the council. The Innovate programme, for senior leaders, will recruit its first cohort of delegates in 2026/27.
- The council has provided a range of learning and development opportunities for staff at all stages of their careers, delivered through the Learning & Organisational Development Team. This includes Mandatory Training modules as well as opportunities through 'My Learning Hub'.
- A review of Member mandatory training was completed by the Member Development Working group in August 2025 and the second round of mandatory training was undertaken during September to November 2025. All training was recorded and placed on the Councillors Intranet site as a resource for members to utilise on an ongoing basis for the remainder of the current administrative term.
- A corporate transformation board has been established and in place since August 2025. The board is chaired by the Chief Executive and meets monthly to set the direction and ambitions for transformation, drive delivery and manage strategic risk and resources.
- To further embed the council's **THRIVE** values of **Trust**, **Honesty**, **Responsibility**, **Inclusivity**, **Value** and **Empathy**, a values-based recruitment framework has been launched in 2025/26.
- Staff are able to discuss and agree training and development needs through the annual 'My Conversation' process.
- During 2025/26, regular updates on the council's financial position and performance in the year to date, have been shared with the council's Leadership Group (staff who report directly to a member of the Corporate Leadership Team) and through All Staff Briefings.
- Interactive information and learning sessions delivered to the Leadership Group in 2025/26 have included Digital Leadership &

Skills, Governance, Finance, Children's Services and Risk Management arrangements.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- The council will continue to identify and deliver improvements to the Member two-yearly mandated training programme, informed by feedback following the review carried out in 2025 and training modules provided.
- The Scheme of Delegation will be kept under review and updated as required.
- Activity to strengthen organisational capacity and capability in 2026/27 will include the introduction of a new Learning Management System and expanded self-help learning offer, delivery of a senior leadership programme, and development of our digital capability through our digital skills offer.

Core Principle F: Managing risks and performance through robust internal control and strong public financial management

Key aspects of the council's governance arrangements during 2025/26:

- The council's performance management framework sets out the approach to business planning, monitoring performance and risk management and this structure enables the alignment of resources, people and finance to the ambitions outlined in the Council Plan. Quarterly budget and performance reports are presented to Cabinet to report progress against the agreed revenue budget, capital programme, savings and achievement of key milestones in the Delivery Plan.
- Risk management forms an integral part of the council's governance arrangements and decision-making processes and is fundamental to the successful delivery of strategic objectives.

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Effective risk management enables the council to make informed decisions in respect of challenges and risks within the boundaries of risk appetite, available resources and legislative and regulatory requirements and strengthens the council's ability to be agile to respond to challenges and opportunities.

- The Corporate Leadership Team (CLT) and Cabinet have undertaken quarterly reviews of the Corporate Risk Register to update risk scores, consider the adequacy of control measures and mitigating actions and identify new threats and opportunities to the delivery of the objectives and priorities of the Council Plan 2024-28.
- A consistent Risk Register template to record and monitor individual Directorate, Service and Project risks has been developed with automated links and escalation flags; this template aligns risks to the council's approved Risk Strategy and Risk Appetite Statement. A SharePoint site and Teams channel has been established to share guidance, training and enable interaction between risk owners.
- The council's 2025/26 Internal Audit Plan was reviewed to ensure alignment with the refreshed Risk Strategy and risks identified in the Corporate Risk Register and this was approved by the Audit & Governance Committee.
- The council's Counter Fraud and Corruption Strategy promotes a culture in which fraud, bribery and corruption are not tolerated and supports the prevention and detection of fraud across the organisation. Work to raise awareness internally and externally has continued in 2025/26: additional training has been delivered to staff and Members, additional resources to raise awareness of fraud have been made available to staff and we have continued to develop methods of partnership working to identify and investigate fraud. The Anti-Fraud, Bribery & Corruption Report outlining counter-fraud activities and progress and outcomes aligned with strategic objectives was reviewed by Audit & Governance Committee in January 2026.
- The council supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation.

- The Financial Procedures Rules (FPRs) control the way the council manages its finances and safeguards its assets. They form part of the Constitution and outline the financial roles and responsibilities for staff and Members and provide a framework for financial decision-making. An update to the FPRs was approved by Audit & Governance Committee in January 2026.
- Internal financial reporting and monthly Directorate Budget Board meetings have supported early identification and effective management of financial risks during 2025/26; enabling recovery plans and expenditure controls to be implemented to influence the final outturn position. A budget monitoring report is prepared for Directorate and Corporate Leadership Teams on a monthly basis. These reports are also presented at Cabinet Briefings in addition to the quarterly monitoring reported to Cabinet.
- Individual Directorates continue to exercise robust financial management through routine expenditure control panels. New arrangements in 2025/26 include the transfer of the Quality Assurance team for commissioned services, including placements, to the Children & Young People Directorate. This provides clarity of function, removing duplication and improving practice in contract management to ensure best value and good outcomes.
- The Shareholder Committee has continued to exercise its functions and responsibilities in respect of its shareholdings in Hoople Ltd and Cyber Quarter Limited and has convened to consider both service and financial performance.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- Risk management takes place across the council at Corporate, Directorate and Service levels and activity will continue in 2026/27 to embed and develop risk management by risk owners at all levels within the risk management framework including elected members.
- To support delivery of approved savings in 2026/27, arrangements to monitor progress and identify risks and challenges to delivery will

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be strengthened. A monthly monitoring and assurance process will take place, led by a Service Director or the Corporate Director. This activity will support and inform monitoring of Directorate financial position and performance at the monthly Budget Board meetings.

- The MTFS will be updated in 2026/27 to reflect the impact for the council of the multi-year funding Settlement and in-year funding allocations as further information is released.
- Activity to develop specific actions and milestones as part of the council's Future Financial Strategy will be a key focus from April 2026 to close the estimated funding gap in future years and protect the council's future financial sustainability.

Core Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability

Key aspects of the council's governance arrangements during 2025/26:

- Arrangements for the governance of the council, including terms and reference of committees, political group representation on committees and outside bodies and appointments of committee chairpersons and vice chairpersons are approved at the Annual Meeting of Council.
- The 2024/25 draft Statement of Accounts was published in May 2025, one month ahead of the statutory deadline, to support early audit testing from June 2025. The early publication of the accounts, alongside high quality supporting working papers, enabled the council to achieve an unqualified audit opinion and External Auditor's Annual Report in September 2025.
- The audit report, and the timely unqualified opinion on the 2024/25 financial statements, provide valuable, independent assurance that the council has robust financial planning arrangements in place to identify all significant financial pressures and risks to financial resilience and to support the sustainable delivery of services in accordance with strategic and statutory priorities.
- An update on the actions identified to deliver continuous improvement in governance arrangements in the 2024/25 Annual

Governance Statement was reported to the Audit & Governance Committee in September 2025.

- Internal audit arrangements have been strengthened in 2025/26 with refreshed resources led by a new Head of Internal Audit and a revised Internal Audit Plan, developed using a risk-based, assurance mapping approach which is aligned to the council's corporate objectives and priorities and the key risks which may prevent them from being achieved.
- Quarterly reports to update Members on progress of internal audit activity and key internal control issues arising have been presented to the Audit & Governance Committee in 2025/26.
- Arrangements are in place to ensure that we fully comply with the requirements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA Statement on the Role of the Head of Internal Audit.
- The council is registered as a Controller under the General Data Protection Regulation (GDPR) which governs how we manage and process the information we collect and retain. There is a nominated Data Protection Officer and procedures in place that explain how we use and share information, as well as arrangements for members of the public to access information.
- Information is published on the council's website to provide details of the working of the organisation, what we spend, and how our decisions are made. All council decisions are published, along with agendas and minutes for Committees and Public and Member questions and answers.
- Cabinet or Cabinet Member decisions are in place for all related activity, with appropriate delegations identified.
- Cabinet members are briefed at monthly portfolio briefing meetings, and regular cabinet meetings.
- The council's Monitoring Officer has a specific duty to ensure the council, its Officers and Members maintain the highest standards in their values and behaviours.
- Exemptions to the Contract Procedure Rules approved during 2024/25 were reported to the Audit & Governance Committee in June 2025. Commercial and legal services have continued to work with council departments throughout 2025/26 to ensure exemptions

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are only proposed where there is no possible alternative.

- In June 2025, the council hosted a Corporate Peer Challenge (CPC) managed by the Local Government Association (LGA). This process provides an independent and objective assessment, led by a team of senior officers and Member peers, of the council's achievements, challenges and future plans. The resulting LGA findings report commended the council's leadership and recognised the council as a "good council that is striving hard to improve further".
- An action plan was prepared to respond to the recommendations made in the LGA findings report identifying planned actions, lead officers and delivery timelines. The findings report and corresponding action plan were reported to and approved by Cabinet in September 2025.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- The council will continue to strengthen internal audit arrangements through the development of the 2026/27 Internal Audit Plan. The Plan will include key coverage of core financial systems, compliance with laws and regulations, controls in place for new grant schemes and activity across Directorates informed by Corporate and Service level risks.
- The development of business cases will be reviewed in 2026/27 to improve the quality of reporting to inform decision-making and the assessment of investment decisions.
- The Service Level Agreement (SLA) between the council and its subsidiary company Hoople Ltd will be reviewed in 2026/27 to provide assurance that the relationship continues to support delivery of the council's strategic priorities and its future financial strategy.

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Significant Governance Issues

Actions taken to address significant governance challenges during 2025/26 are noted below.

- Continued improvement in Children's Services:** During 2025/26, the council has continued to work hard to deliver the improvements required in Children's Services and good progress with renewed pace was noted in the Ofsted monitoring visits in the lead up to the full Inspection of Local Authority Children's Services (ILACS) in November 2025. The inspection report found the council's Children's Services to have 'Good' overall effectiveness with 'Outstanding' impact of leaders on practice. The outcome of the ILACS inspections, alongside a report completed by the DfE appointed Commissioner, will inform the Secretary of State decision regarding the existing statutory direction and next steps for the council. At the meeting of the independently chaired Children's Improvement Board in January 2026, the Board agreed to stand down, promoting a transition to enable monitoring of Children's Services, including the Children's and Young People's Plan and the Improvement Plan Phase 3, through routine channels in line with other non-inadequate councils. Governance and monitoring arrangements in 2026/27 will be fulfilled by the Corporate Leadership Team, Cabinet and the Children and Young People Scrutiny Committee.
- Financial Sustainability and Resilience:** Monthly Directorate Budget Boards have provided improved oversight of key cost pressures, delivery of the capital programme and challenges in the delivery of approved and brought forward saving targets during 2025/26, supporting the early identification and effective management of financial risks. Directorate control panels have continued to review expenditure on goods and services, as well as changes in staffing arrangements, to provide increased rigour and challenge over expenditure.

The review of governance arrangements during 2025/26 has identified the following areas which will be a key focus for the council's leadership in 2026/27:

- Delivery of major and capital projects:** The council has approved an ambitious capital programme for 2026/27 with significant activity planned to progress major and capital projects aligned to the council's Year of Delivery priorities in 2026. Robust monitoring of capital project delivery in 2026/27 will be required to identify and mitigate risks to project budgets, delivery of benefits and potential loss of grant funding. Project assurance reviews and planned improvements to the development of business cases will ensure that investment decisions deliver economy, efficiency and effectiveness in the use of resources.
- Activity to support the Future Financial Strategy:** The council has set a balanced budget for 2026/27 and we will continue to monitor the outturn position and achievement of savings targets throughout the year. Directorate expenditure controls will continue, as part of financial management arrangements, in 2026/27 to ensure delivery of services within the approved budget and early identification of cost pressures. Budget Boards will monitor achievement of savings targets, key financial pressures and risks and delivery of capital and major projects by Directorate. Assessment of financial position and performance in 2026/27 will include monitoring of delivery of the capital programme, cashflow position and improved reporting of the council's assets and liabilities including debt, long-term borrowing and use of earmarked reserves. The council's future financial strategy will ensure that the council's finances are aligned to its strategic priorities with a clear focus on required activity to ensure the future sustainability of the council and the services it delivers. High support and challenge of planned activity to deliver savings and efficiencies to resolve the estimated future funding gap will be a key area of focus in 2026/27.

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- Dedicated Schools Grant and SEND Reform Plan:** At 31 March 2026, the council's Dedicated Schools Grant (DSG) cumulative deficit is £36.3 million following a £16.3 million overspend within the High Needs Block. The DSG deficit is accounted for as an unusable reserve on the council's Balance Sheet, as permitted via statutory instrument which will remain in place up to March 2028; beyond the period of the statutory override, any balance on the DSG unusable reserve will transfer back to the council's Earmarked Reserves. The Final Local Government Settlement published on 9 February 2026 confirmed the proposed treatment of DSG deficits as part of wider SEND reform. The first phase of support will be to address historic deficits with a High Needs Stability Grant to cover 90% of High Needs-related DSG deficit accrued up to the end of 31 March 2026. Service and Finance teams are currently developing the council's Local SEND Reform Plan for submission by 19 June 2026. Subject to Department for Education (DfE) approval, the Plan will evidence eligibility for the High Needs Stability Grant to cover approx. £32.7 million (90%), with the remaining balance of £3.6 million (10%) to be a liability of the council once the statutory override period ends in March 2028.
- The council is committed to identifying actions to respond to local special educational needs and disabilities (SEND) and alternative provision to meet current and future levels of demand. The council's SEND Reform Plan will be underpinned by a credible financial strategy, a robust financial baseline, robust financial modelling and planning for use of Experts at Hand Offer and High Needs Provision Capital Allocation grant funding, clear understanding of the drivers of high-cost spend and a plan to respond to such pressures and a mechanism to enable quarterly financial monitoring. The High Needs Stability Grant and SEND Reform Plan are key components of the council's future financial strategy and delivery of the Plan will be a key area of focus for the council in 2026/27.

The key governance challenges facing the council in 2026/27 will be monitored by the Corporate Leadership Team and Audit & Governance Committee.

Glossary of terms

Audit and Audit Assurances

The council's Statement of Accounts are audited by Grant Thornton UK LLP. In accordance with statutory requirements, the annual audit includes an examination and certification of the financial statements to confirm they are 'true and fair' and free from material misstatements and an assessment of the council's arrangements to secure economy, efficiency and effectiveness in its use of resources. In 2024/25, Grant Thornton gave an unqualified audit opinion on the financial statements.

The external auditor's work on the council's arrangements to secure value for money in 2024/25 did not identify any significant weaknesses or improvement recommendations in respect of arrangements for financial planning, alignment of financial plans to other operational planning and in identifying and managing risks to financial resilience. A key recommendation was raised in respect of the council's Dedicated Schools Grant (DSG) deficit position, and an improvement recommendation was made in respect of the achievement of savings in 2024/25.

The Annual Auditor's Report for the year ended 31 March 2025 acknowledges the transformation and improvements made in the delivery of Children's Services, downgrading the prior year significant weakness and key recommendation to an improvement recommendation. This finding supports the external inspection findings reported by Ofsted across multiple monitoring visits during 2024/25 and the 'Good' rating received in January 2026.

A key recommendation was raised in relation to strengthening challenge and control of capital expenditure to ensure effective governance and oversight of procurement decisions. The council has implemented improvements in this area with additional oversight across all major projects to consider individual and thematic challenges and risks in project delivery.

Internal audit services are provided by South West Audit Partnership (SWAP) and these services are managed and delivered in accordance with

the Public Sector Internal Audit Standards (PSIAS). SWAP is responsible for reviewing the adequacy of internal controls across all areas of the council's services, providing risk-based and objective assurance, advice and insight.

The annual Internal Audit plan and Internal Audit Charter are presented to and approved by the Audit and Governance Committee. The plan includes a range of activity designed to provide appropriate coverage of key business objectives, and is aligned to the Risk Strategy and risks identified in the Corporate Risk Register.

Further assurance is provided by reviews undertaken by external agencies including Ofsted, the Care Quality Commission, the Office of the Information Commissioner, the Local Government Association Corporate Peer Challenge and other Local Authority Inspectorates.

For the year ended 31 March 2026, the Head of Internal Audit issued a Reasonable Assurance opinion on the overall adequacy and effectiveness of the council's governance, risk management and internal control environment.

Certification

To the best of our knowledge, the governance arrangements, as defined above have been effective for the period from 1 April 2025 to 31 March 2026. We will use the areas for improvement identified through this review of effectiveness to ensure that these governance arrangements, alongside identified areas for improvement, continue to provide effective foundations for the council to achieve its objectives.

Paul Satoor
Chief Executive
Date: 29/09/2026

Jonathan Lester
Leader of the Council
Date: 29/09/2026



Title of report: 2025/26 Statement of Accounts

Meeting: Audit and Governance Committee

Meeting date: Tuesday 29 September 2026

Report by: Director of Finance, Chief Accountant

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To approve the 2025/26 Statement of Accounts and associated letter of representation from Grant Thornton, the external auditors.

Recommendation(s)

That:

- a) The 2025/26 Statement of Accounts (Appendix A) be approved; and
- b) The letter of representation (Appendix B) be signed by the chairperson of the committee and the Director of Finance.

Alternative options

1. To not provide a Statement of Accounts. This is not an option. The Local Audit and Accountability Act 2014 requires the council to produce a Statement of Accounts in accordance with the Accounts and Audit Regulations (England) 2015 (as amended). The process requires the final accounts to be approved by the Audit and Governance Committee.

Key considerations

2. The council is required to prepare an annual Statement of Accounts and to arrange for them to be audited and reported in accordance with the Accounts and Audit Regulations 2015 and the 2025/26 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement of Accounts

Further information on the subject of this report is available from
Rachael Sanders, Tel: 01432 383095, Tel: 01432 261867, email: Rachael.sanders@herefordshire.gov.uk

presents the overall financial position of the council and comprises: a narrative report and annual governance statement, comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, collection fund statement, group accounts and supporting notes.

3. The council prepared draft Statement of Accounts for 2025/26 and published them on 29 May 2026, one month ahead of the statutory deadline and provided accounts to the external auditors on this date. These draft, unaudited accounts were presented to this committee at its meeting on 9 June 2026.
4. The financial statements are prepared in accordance with International Financial Reporting Standards. The S151 Officer is satisfied that the Statement of Accounts present a true and fair view of the financial position of the council and its group as at 31 March 2026 and its income and expenditure for the year ended 31 March 2026.
5. The financial outturn position reported for 2025/26 is a balanced revenue outturn position, after the use of reserves and recovery actions implemented by management in year, against a net budget of £231.5 million. The net deficit on the provision of services presented in the comprehensive income and expenditure statement is £0.9 million; this represents the accounting deficit after financial accounting adjustments including pension actuarial costs and capital costs allowable under International Financial Reporting Standards (IFRS). These accounting adjustments are explained in note 8 to the accounts: Expenditure and funding analysis.
6. The general fund balance remains at £10.1 million and earmarked reserves have decreased from £80.7 million to £70.9 million. These figures include balances of £9.2 million held for individual maintained schools.
7. The cumulative dedicated schools grant (DSG) deficit brought forward from last financial year of £20.0 million has increased by £16.3 million, representing the deficit in 2025/26, to £36.3 million. In line with the School and Early years Finance (England) Regulations 2020, the deficit reserve is classified as an unusable reserve instead of an earmarked reserve.
8. The council instructed external valuers Wilks Head & Eve LLP to carry out the land and buildings asset valuations in 2025/26 in line with the rolling programme of valuations. Valuations were completed in accordance with the professional standards of the Royal Institution of Chartered Surveyors (RICS) as per the planned timetable and revaluations have been processed to update carrying values at 31 March 2026 which are reflected in the 2025/26 Statement of Accounts. For 2025/26 this also included appropriate rates for indexation of assets not revalued as at 31 March 2026.
9. The group accounts consolidate the performance of the council with its subsidiary undertaking: Hoople Ltd. The impact of the consolidation is an increase in the group reserves of £3.7 million, which includes reserves applicable to the minority interest of £0.7 million.
10. The council finance team facilitated an early start to the audit in the first week of June, following an interim period of testing earlier in the year. The team has worked with the external auditors to provide detailed working papers, evidence for sample testing and explanations to support management judgements and accounting estimates for transactions and balances reported in the financial statements for the year ended 31 March 2026. The team has responded to requests promptly and with high quality working papers.
11. The external audit has identified a small number of presentation and disclosure adjustments and where appropriate these have been reflected in the accounts. Changes to the Statement of Accounts following the external audit are listed in the External Audit Findings Report.

12. The approved 2025/26 Annual Governance Statement will be added to the Statement of Accounts attached at Appendix A.
13. Attached at Appendix B is the council's Letter of Representation confirming that, to the best of the council's knowledge and belief, the financial statements, at Appendix A, give a true and fair view in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 and applicable law.

Community impact

14. Publication of the Statement of Accounts in accordance with statutory requirements helps the council to achieve its code of corporate governance commitment to behave with integrity, demonstrate strong commitment to ethical values, and respect the rule of law. The council is accountable for how it uses the resources under its stewardship, including accountability for outputs and outcomes achieved. In addition, the council has an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies.

Environmental impact

15. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
16. Whilst this is a progress report on back-office functions and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the Council's Environmental Policy. For example, the external audit will be mostly completed remotely, reducing travel impact and paper usage.

Equality duty

17. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
18. The mandatory equality impact screening checklist has been completed for this activity, and it has been found to have no impact for equality.

Resource implications

19. There are no specific resource implications from the report.

Legal implications

20. Regulation 9 of the Accounts and Audit Regulations 2015 requires the following:
 - i. The S151 officer to sign and date the Statement of Accounts, and confirm that they are satisfied that it presents a true and fair view of the financial position of the council at the end of the financial year to which it relates together with the income and expenditure for that financial year; and
 - ii. A period of time to allow the public to inspect the accounts. This commenced on 1 June 2026 and lasted for six weeks; and

- iii. Following the conclusion of the period for inspection, the committee must approve the statement of accounts by a resolution and ensure that the statement of accounts is signed and dated by the person presiding at the committee. In order for the committee to do so the S151 officer has re-confirmed that they are satisfied that the statement of accounts presents a true and fair view.

Risk management

- 21. The external auditors have issued an unqualified opinion on the statement of accounts, as per the External Audit Findings Report included in today's agenda.
- 22. The council is required to make arrangements for the proper administration of its financial affairs and to secure that the S151 officer has the responsibility for the administration of those affairs. The council is also required to secure economic, efficient and effective use of resources for which Grant Thornton provide a Value for Money opinion, this report is included on today's agenda.

Consultees

- 23. The Statement of Accounts was made available for public inspection for a six week period commencing 1 June 2026. No objections were received.

Appendices

Appendix A – Statement of Accounts 2025/26
 Appendix B – Letter of representation for 2025/26
 Appendix C – Draft audit opinion for 2025/26

Background papers

None identified.



Herefordshire Council

Statement of Accounts 2025/26

Audited

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Foreword from the Chief Executive

In my fifth and final year as Chief Executive, Councillors and staff have continued to work together to deliver improvements and advance our corporate priorities: protecting and enhancing our environment, enabling residents to realise their potential in safe and supportive communities, delivering sustainable economic growth across the county and providing services efficiently to demonstrate value for money. Across the organisation, staff have demonstrated professionalism, commitment and care in the delivery of services and I am extremely proud of the values and culture of trust, teamwork and collaboration that underpin this work.

In February 2025, Council approved its budget for 2025/26 and performance against the budget is set out in this Statement of Accounts and the revenue outturn report presented to Cabinet. A sustainable financial strategy has been developed for 2026/27 and onwards, building on the prudent approach and robust financial management now embedded across the council. This strategy aims to preserve and protect the council's future financial resilience and sustainability at a time of increasing cost pressures and reductions in central government funding, to ensure the council can achieve an ambitious programme of investment, service improvements and transformation to deliver the best for Herefordshire.

As a result of the robust management of the revenue budget and responsible stewardship of the council's financial resources, the council is in a stable and resilient position to respond to and withstand future financial pressures and deliver improvements for residents. Some notable successes in 2025/26 included:

- In January, Herefordshire Children's Services were rated as 'Good' overall with 'Outstanding' leadership of services in the final Ofsted inspection report. This outcome recognises the impact of significant and sustained improvement and reflects the council's unwavering commitment to delivering the best possible services for children and young people in our county.
- The council launched Child Friendly Herefordshire in March 2026; a major and long-term partnership of schools, local businesses and

community organisations, committed to making the county a place where every child feels included, valued, happy, healthy and safe.

- We welcomed a review by the Local Government Association's Corporate Peer Challenge team in 2025/26. The review identified Herefordshire as a "good council that is striving hard to improve further" and commended political and managerial leadership and our collaborative approach. Partnership working and governance arrangements were identified as key strengths by the Peer team, strengths that will support the council to explore future devolution opportunities and deliver the ambitions of the Council Plan.
- Partnership working has been a key area of focus in 2025/26. Alongside key regional partnerships including the Marches Forward Partnership, the council has engaged with counterparts in neighbouring authorities to collaborate on key challenges including transport, housing and devolution. In addition, the Herefordshire Chief Executives Group (HCEG) has met regularly to share insights and work to address the root cause of shared challenges; identifying key priorities as vulnerable people with complex needs, access to housing, resilience of services and healthy communities. The member organisations will work together to enable individuals to live their best life in Herefordshire.
- The council has proactively led sub-regional engagement in identifying a future basis for devolution through a proposed Foundation Strategic Authority (FSA) and Spatial Development Strategy area economic partnership. Key analysis to consider interdependencies and sectoral and strategic alignment across the wider region has been undertaken to inform the council's FSA Expression of Interest.
- The council held its first Employee Awards event in May 2025; an opportunity to celebrate staff achievements and recognise the outstanding work of individuals and teams who contribute to the organisation and work to improve services for residents.

Looking ahead to 2026/27 and the medium-term planning period, the council is well positioned to respond to the challenges ahead. With a stable financial position and sustained provision of high-quality services, the council's strong foundations and positive culture mean it is able to maximise opportunities to deliver ambitious improvements for residents.

Paul Walker, Chief Executive

Narrative report

About Herefordshire Council

Herefordshire is a county with a rich history and proud heritage, covering a geographic area of 840 square miles. It is home to nearly 200,000 residents across rural villages and vibrant market towns with a thriving economy combining long-standing agriculture and food production industries alongside innovative businesses in cyber and technology, construction, manufacturing and engineering.

The council has experienced continuing cost pressures in 2025/26 as a result of increasing complexity of need and intensity of care for the county's ageing population, increased demand for temporary accommodation and increasing demand and costs in Special Educational Needs and home to school transport budgets.

Robust, timely monitoring of the revenue budget and responsible stewardship of financial resources throughout 2025/26 has enabled the council to respond to and mitigate these financial pressures. The Corporate Leadership Team has continued to exercise robust financial management of the forecast position throughout the year; monitoring the impact of planned mitigations and recovery actions on the in-year forecast and the progress of delivery of approved savings targets.

The council has continued to make arrangements to secure value for money in its use of resources throughout the year; strengthening governance and risk management arrangements and managing key financial pressures to deliver corporate objectives, service improvements and transformation.

Our Vision and Corporate Priorities

The Herefordshire Council Plan 2024-2028, approved in May 2024, sets out how the council will make its contribution to achieving success across the county; delivering the best for Herefordshire in all areas of service delivery and developing a council that engages with the communities it serves. The Plan sets out the vision for the future, with a focus on key priorities of People, Place, Growth and Transformation, with partnership working at the core of all activity.

The Plan is supported by an annual delivery plan which outlines the activities to be undertaken to the identified outcomes. Achievement against the delivery plan is monitored through a robust performance monitoring framework incorporating a suite of management and performance information reports used across teams and services.

PEOPLE



We will enable residents to realise their potential, to be healthy and to be part of great communities that support each other. We want all children to have the best start in life.

PLACE



We will protect and enhance our environment and ensure that Herefordshire is a great place to live. We will support the right housing in the right place and do everything we can to improve the health of our rivers.

GROWTH



We will create the conditions to deliver sustainable growth across the county; attracting inward investment, building business confidence, creating jobs, enabling housing development and provide the right infrastructure.

TRANSFORMATION



We will be an efficient council that embraces best practice, delivers innovation through technology and demonstrates value for money.

UNDERPINNING THEME - PARTNERSHIP WORKING

Partnership working is central to Herefordshire Council's success and to delivering the best results for our residents. We are stronger together and the council will always work to build strong, effective partnerships to ensure our county is much more than the sum of its parts.

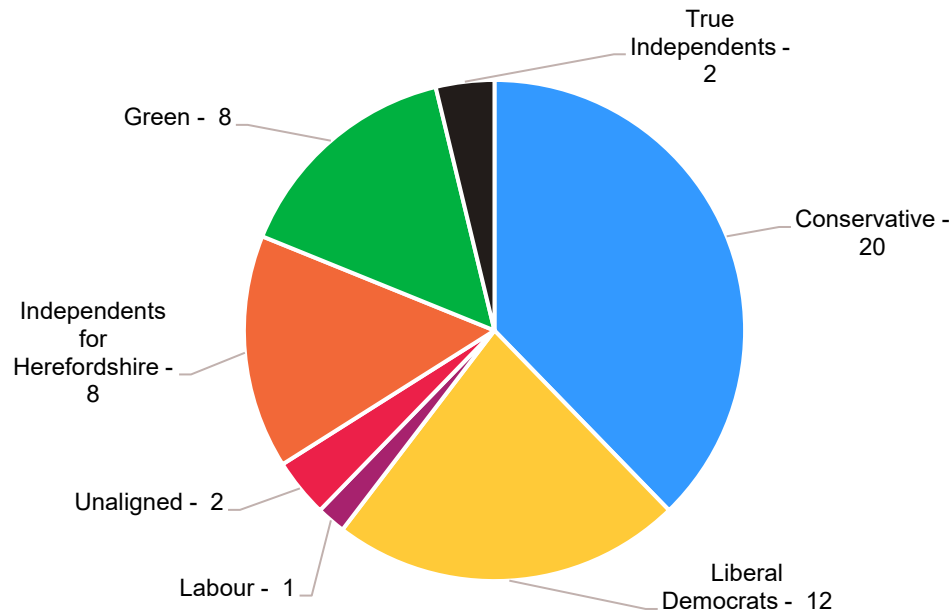
Narrative report

Our Governance and Political Structure

Herefordshire Council operates a leader and cabinet model of governance. The council's 53 elected members meet together as full Council to set the policy framework, agree the budget and spending plans, set the Council Tax, elect the leader of the council and chairs of committees and make constitutional decisions.

The chart below shows the political structure of the council as at 31 March 2026:

Political Structure 2025/26



Decision making takes place at a wide range of levels across the council.

The constitution defines the various roles of officers and members:

- Council (all 53 elected members) approves the constitution, the budget and the main policies and priorities for the council; it delegates much of its day to day decision-making (such as planning and licensing) to a number of committees, or to officers;
- Cabinet (the executive) is responsible for all decisions which the law, or Council, does not require to be taken by others; and agrees policies and actions to implement the budget and policies set by Council;
- Officers: take operational decisions in order to put agreed policies and strategies into effect and to deliver services efficiently; and
- Overview and scrutiny: scrutinises decisions and advises the cabinet and Council on policy issues.

The council also works in partnership with a range of organisations from the public, business, and voluntary and community sectors in order to deliver the best services, as efficiently as possible for the county. Further details of the council's governance arrangements are provided in the Annual Governance Statement.

Council Leadership Team

The Chief Executive is responsible for the operational management, leadership and strategic direction of the council, supported by the senior Leadership team comprising Corporate Directors from the three directorates: Community Wellbeing, Children and Young People, Economy and Environment, together with the corporate directors.

The council has responsibilities for a wide range of services including: economic development, education, environmental health and animal welfare, highways, housing, leisure and culture, local tax collection, passenger transport, planning, public health, social care (adults and children), strategic planning, trading standards, transport planning, waste collection and disposal. The council is also the 'corporate parent' to children and young people in its care.

Narrative report

Our Performance

Community Wellbeing

The council's priority is to protect and improve the lives of vulnerable people and to enable residents to live healthy lives within supportive communities. We aim to support individuals to live as independently and healthily as possible through investment in prevention, early intervention and the use of technology and to encourage communities to help each other through a network of community hubs.

In September 2025, Herefordshire was named as one of 43 areas in England selected to take part in the National Neighbourhood Health Implementation Programme (NNHIP), a major initiative aimed at transforming how health and care services are delivered. This programme represents a significant opportunity for Herefordshire and will enable us to redesign services around the needs of our communities with a focus on those who need the most support.

Our adult social care services continued to work closely health colleagues to manage effective discharge from hospital throughout the year, managing homecare and care home capacity to address the increasing demand from the hospital and the community. We have continued to support residents during 2025/26 with financial support provided for vulnerable households, school holiday food vouchers, a programme of free activities during school holiday periods for children in receipt of free school meals plus additional support for eligible households, care leavers and pensioners towards food and energy costs.

Work to address the county's critical housing needs and increasing demand for affordable housing and temporary accommodation has continued throughout 2025/26. Alongside work with registered providers to deliver new dwellings, activity to deliver more homes for large families, accessible housing, accommodation for young people, and additional temporary accommodation to meet growing demand and reduce long term costs, has taken place across council teams.

Economy and Environment

Investment in the county's highway network has continued in 2025/26 with £9.8 million invested in resurfacing works and additional investment in highways improvement works to prolong the life of the roads, strengthen the resilience of the network and deliver quicker, safer and smoother journeys. We have also supported parish and town councils for local public realm improvements so that residents and visitors can access and enjoy the countryside.

We approved a new contract to deliver public realm services across the county covering essential services that residents rely on, including the maintenance of roads and green spaces, highway drainage, street lighting, street cleansing, maintenance of bus shelters, rights of way and winter gritting. Under the new contract, the council will take back day-to day control of public realm services, providing greater flexibility and ensuring services are delivered with a focus on quality, efficiency and value for money.

In March 2026, the council appointed a contractor to lead detailed design and early works for phase one of the bypass which aims to tackle long-standing congestion, improve connectivity, and create the conditions for jobs and economic growth across the county. The 'Back the Bypass' campaign was launched bringing together residents, business representatives and other key stakeholders to share views on the challenges experienced and highlight the opportunities and expected benefits the new infrastructure will bring.

Activity to enable economic growth across the county continued in 2025/26 with the commencement of construction of Ross Enterprise Park, a strategic employment site which will become one of Herefordshire's largest business hubs, and the opening of a new Business Hub in Leominster.

As part of our on-going work to support better-paid employment opportunities, we hosted the Herefordshire Employment & Skills Conference joining with business, training providers and educators to address skills gaps, workforce planning and apprenticeships. This investment, and engagement with partners, demonstrates the council's

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commitment to creating the conditions to deliver sustainable growth across the county; attracting inward investment, building business confidence and creating jobs.

Children and Young People

Ofsted Monitoring visits have taken place throughout 2025/26 and the DfE appointed Children's Service Commissioner has continued to monitor progress in the delivery of improvements. The full re-Inspection of Local Authority Children Services (ILACS) took place in November 2025 which determined the council's Children's Services to have 'Good' overall effectiveness with 'Outstanding' impact of leaders on practice.

This judgement recognises that services for children in Herefordshire have significantly improved since the last inspection in 2022 and commends the improvements delivered to ensure that children and their families benefit from effective services that make a difference to their lives.

Continued, strengthened financial management in the Directorate has had a positive impact on the budget outturn position and delivery of in-year savings targets in the past two financial years (2024/25 and 2025/26).

Phase 3 of the Children's Services Improvement Plan has been completed and a new Children's Services Business case developed with priorities for the services coordinated with regional and national developments within Children's services Social Care, Education and SEND, in line with the Wellbeing and Schools Act 2026. The Plan sets out practice priorities that will ensure there is continued and coordinated partnership working in the delivery of good quality children's services.

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Our Financial Performance

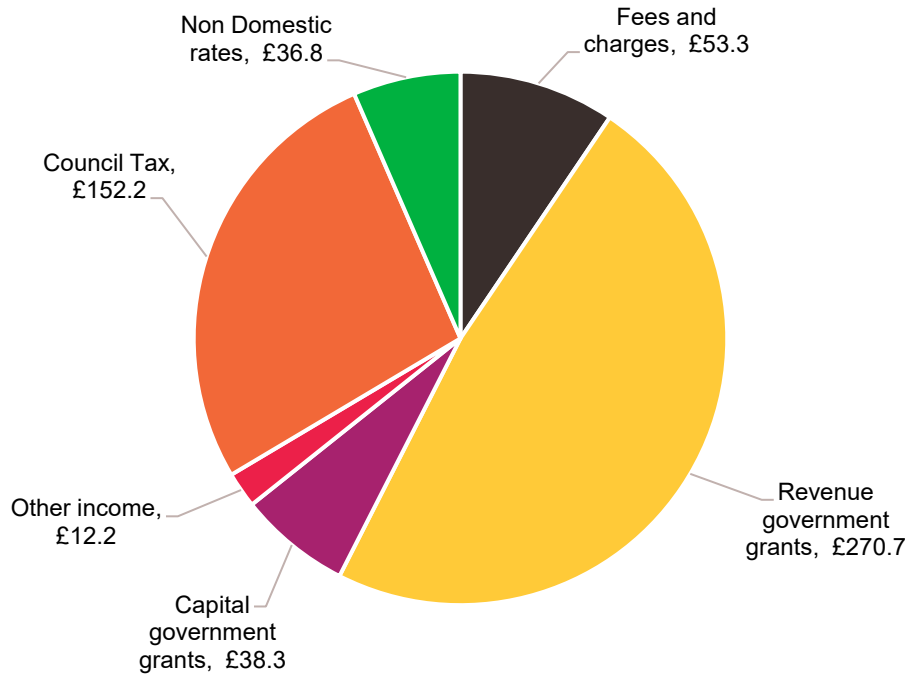
Revenue Summary

The council receives funding from three main sources:

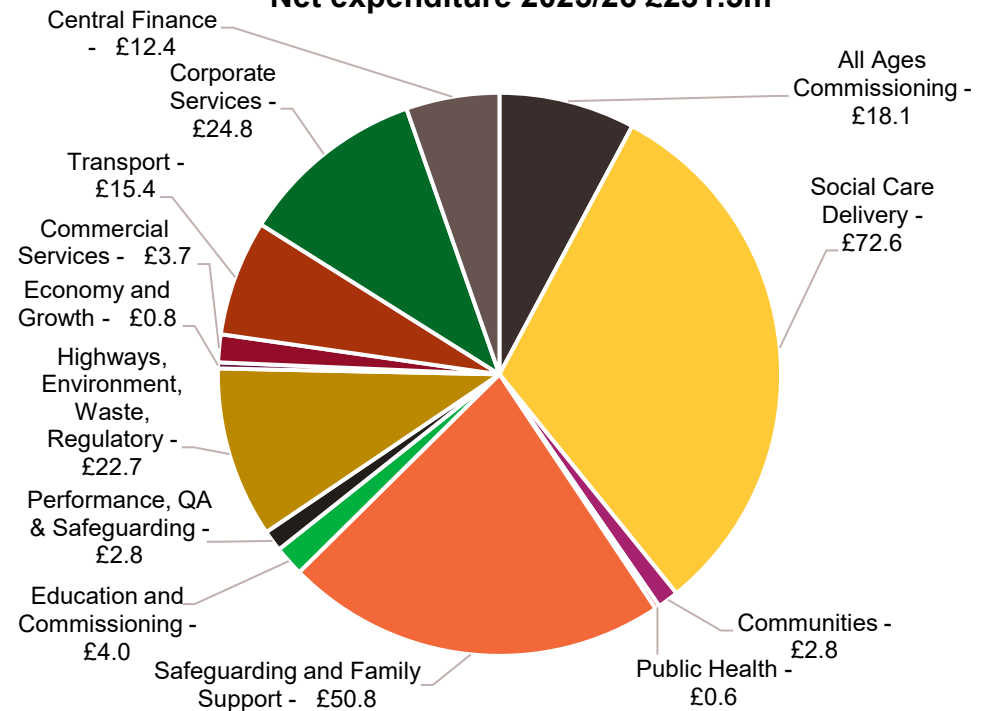
- Government grants
- Council tax
- Business rates

The council also generates income from fees and charges from the services it provides. The charts below show the funding received in 2025/26 and how these funds were spent on services in the year:

Gross funding and income 2025/26 £563.5m



Net expenditure 2025/26 £231.5m



Narrative report

2025/26 Revenue Outturn

In February 2025, the council approved a net revenue budget of £231.5 million. The revenue budget shows the annual cost of delivery against the council's duties and responsibilities to the community, many of which are statutory functions.

The council delivered a balanced revenue outturn position in 2025/26 after the use of reserves and recovery plan actions implemented by management during the year. The following table shows the council's actual spend for the year against its planned spend for the year by Directorate with the difference between the two shown as the variance. The negative figures are those where spend was less than planned and the positive figures are where spend was greater than planned.

Service area	Budget £m	Outturn £m	Variance £m
Community Wellbeing	90.4	94.1	3.7
Children and Young People	58.8	57.6	(1.2)
Economy and Environment	28.1	27.3	(0.8)
Corporate Services	23.4	24.8	1.4
SEN&Home to School Transport	12.7	15.3	2.6
Directorate Total	213.4	219.1	5.7
Central, Treasury Management	18.1	12.4	(5.7)
Total	231.5	231.5	-

The Community Wellbeing Directorate budget delivered an overspend of £3.7 million (4.1%) against its £90.4 million net budget after application of £1.8 million from the Budget Resilience Reserve. The Directorate has managed continuing cost pressures throughout 2025/26 as a result of increasing complexity of need and intensity of care support for the county's ageing population, increased demand for temporary accommodation, the impact of hospital high occupancy rates and an increase in the number of individuals unable to fund their own care linked to the impact of increases in the cost of living and inflation.

As part of the council's Future Financial Strategy, the council will work with external specialist partners in 2026/27 to identify, design and implement transformation activity that delivers sustainable, recurrent savings over the MTFS period. This work will focus on preventative services and early intervention, promoting independence and reducing long-term care needs to generate savings.

The outturn position for the Children & Young People Directorate is an underspend of £1.2 million after repayment of the reserve contribution of £1.4 million, approved in the 2025/26 Revenue budget, a year earlier than required. The underspend has been delivered through robust management of expenditure to deliver services and delivery of the 2025/26 approved savings of £3.9 million in full.

The Economy and Environment Directorate achieved an underspend of £0.8 million on its £28.1 million net budget. The outturn position comprises reduced crematorium fees in 2025/26 offset by additional income from car parking, economic development activity and development control planning.

The Corporate Services Directorate delivered an overspend of £1.4 million which represents savings targets not delivered in 2025/26 and increases in the council's insurance premiums as a result of flooding events in the county.

Expenditure against the Home to School and Special Educational Needs and Disability (SEND) transport services budget delivered an overspend of £2.6 million in 2025/26. The provision of transport services represents a significant pressure in Herefordshire and nationally and, ahead of any substantive reform, the council continues to identify strategies to manage increasing demand and cost pressures. This activity represents a key area of focus in the council's future financial strategy.

Central and Treasury Management budgets achieved a total underspend of £5.7 million which represents positive variances as a result of treasury

Narrative report

management activities, in line with the approved Treasury Management Strategy, investment and contractual income, additional income from the council's Business Rate pooling arrangement and capital financing underspends.

This outturn position is reconciled to the figures shown in the comprehensive income and expenditure statement in note 8: Expenditure and funding analysis.

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Capital Investment Programme

In February 2025, the council approved a revised capital budget of £155.2 million for 2025/26. The final capital programme for the year following reprofiling of expenditure to future years, addition of new grants and projects like the acquisition fund for housing provision totalled £113.8 million and included the following significant capital projects:

- **Hereford City Centre Transport Package:** Construction of the Transport Hub began in 2025/26 and is due to complete late 2026; this project is supported by increased funding of £6.3 million from the Levelling Up Fund.
- **Resurfacing Herefordshire Highways & Local Transport Plan (LTP) Grant:** £9.8 million of highways resurfacing work has been delivered across the county with additional spend of £21.3 million in highways improvements through the annual Highways Maintenance Block Grant.
- **Home Energy Efficiencies:** £0.7 million in Warm Homes Grants have been distributed in 2025/26 to enable residents to benefit from more energy efficient heating systems and energy efficient home improvement. This project will continue for the next two years with a strong pipeline of works commencing in 2026/27.
- **Schools Maintenance Grant:** over £2.8 million was spent on improvements to schools including new roofs, internal works and replacement boilers.
- **Brookfield School:** Construction work to deliver planned improvements has continued, due to complete in May 2026.
- **UK Shared Prosperity and Rural Prosperity Grants:** A total of £0.9 million in capital grants was allocated across local businesses to support growth across the county.
- **Peterchurch School:** A total of £4.7 million was spent as construction of the new primary school commenced, due to complete in July 2026.
- **Ross Enterprise Park Employment Land:** A total of £1.0 million was spent as construction of the new employment land plots and access infrastructure started, due to complete by the end of 2026/27.

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2025/26 Capital Outturn

The total expenditure on capital projects in 2025/26 was £86.0 million which represents 76% of the revised budgeted programme. This expenditure was financed by capital grants of £54.5 million, prudential borrowing of £23.7 million, revenue reserves of £0.4 million and capital receipts of £7.4 million.

The £27.8 million underspend comprises £2.8 million of projects that have delivered below project budgets and a further £25.0 million of budgets to be carried forward to 2026/27.

Summary Financial Position	Approved budget £m	Revised budget £m	Expenditure £m	Variance £m
Community Wellbeing (including Housing)	16.0	11.5	7.9	(3.6)
Corporate Service (IT & Transformation)	1.9	1.3	0.9	(0.4)
Children & Young People (including Schools)	26.2	18.9	15.3	(3.6)
Economy & Environment (Council asset investment)	10.6	5.3	3.4	(1.9)
Economy & Environment (Highways & Public space)	39.8	41.5	40.3	(1.2)
Economy & Environment (Environmental)	15.8	9.4	3.8	(5.6)
Economy & Environment (Economic growth)	13.3	6.9	1.9	(5.0)
Economy & Environment (Transport)	25.6	19.0	12.5	(6.5)
Total	149.2	113.8	86.0	(27.8)

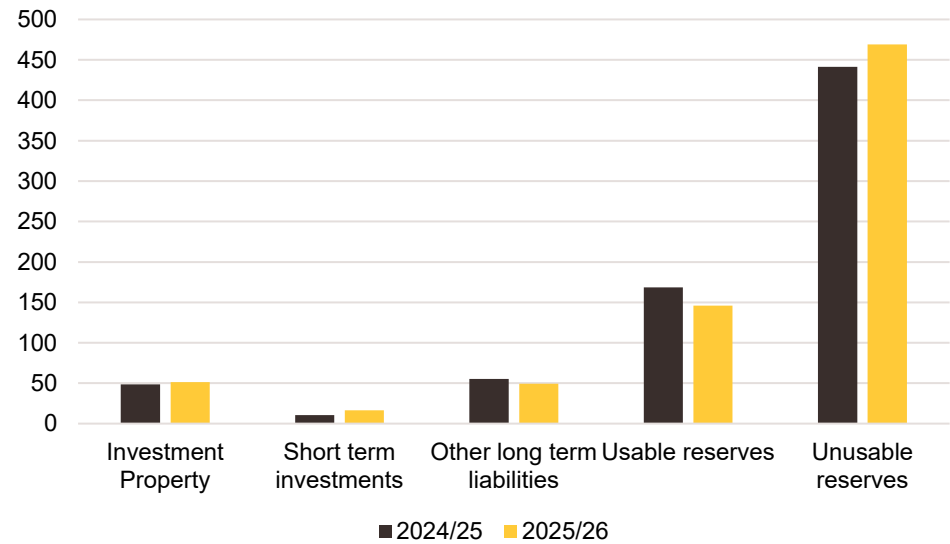
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Assets and Liabilities

The Balance Sheet summarises the council’s financial position at 31 March 2026 and reports the assets, liabilities and reserves which show what the council owns and how much it owes. The council’s net assets have increased by £5.0 million from £609.9 million at 31 March 2025 to £614.9 million at 31 March 2026. The key balance sheet variations are noted in the following table and chart:

Summary Financial Position	31 March 2025 £m	31 March 2026 £m	Movement £m
Assets (what we own)	890.7	950.4	59.7
Liabilities (what we owe)	(280.8)	(335.5)	(54.7)
Net financial position (assets less liabilities)	609.9	614.9	5.0
The net financial position is held in reserves as follows:			
General reserves (usable)	(168.4)	(146.0)	22.4
Other reserves (unusable)	(441.5)	(468.9)	(27.4)
Total reserves	(609.9)	(614.9)	(5.0)

Main Balance Sheet variations (£m)



Borrowing and Investments

The Treasury Management Strategy, approved annually by Council, outlines the proposed borrowing and investment strategy, the council’s expected minimum revenue provision and the associated prudential indicators which demonstrate that the council’s proposed capital investment budget is affordable, prudent and sustainable. External borrowing is obtained, where necessary, to support the council’s capital programme and borrowing limits are set in accordance with the Prudential Code for Capital Finance in Local Authorities. New long-term borrowing of £55.0 million, over a 10-year term, was secured in March 2026 to support delivery of the council’s capital programme and liquidity.

Total borrowing at 31 March 2026, including short term loans, was £196.6 million (£138.8 million at 31 March 2025). Principal debt repayments of £7.4 million were made and interest of £6.0 million was paid on all council borrowing during 2025/26. Net borrowing (borrowing less short-term investments) was £180.0 million as at 31 March 2026 compared with £128.4 million as at 31 March 2025.

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Other Long Term Liabilities

The movement in long term liabilities results from a decrease in the Private Finance Initiative (PFI) liability and a reduction in the pension fund liability.

Pension Fund Liability

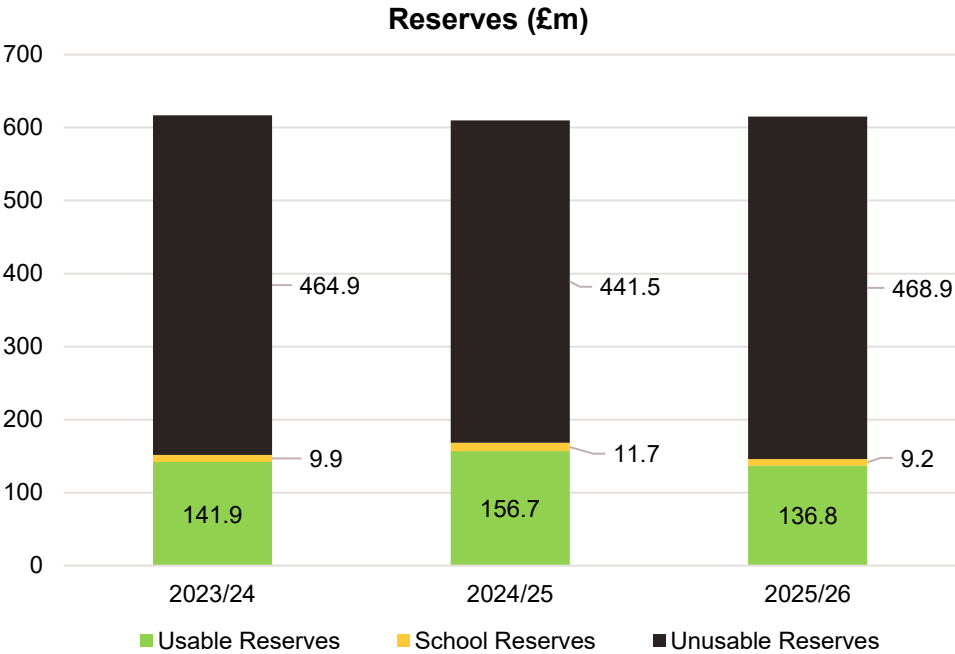
Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund. Herefordshire's proportion of the net liability of the Worcestershire County Council Pension Fund as at 31 March 2026 is £3.4 million (£7.1 million at 31 March 2025) on an International Accounting Standard (IAS) 19 basis.

The pension fund position is reviewed every three years and was last revalued as at 31 March 2025, where the in-service contribution rate decreased to 17.6% (previously 18.8%) with no deficit contribution (previously 1.2%). These changes have been reflected in the medium-term financial strategy.

Further details of the pension liability and assets are set out in the technical annex section of these financial statements.

Reserves

The reserves on the balance sheet represent the council's net worth and are split into usable reserves and unusable reserves. The following chart shows the balance of reserves over the last three years. Usable reserves are shown in green, unusable reserves shown in black and reserves belonging to schools are shown in yellow.



Usable Reserves

Usable reserves are those reserves that can be spent on future services and include general reserves as well as those earmarked for specific purposes. Earmarked reserves are established to hold revenue balances to fund future year commitments over and above the annual budget requirement and to provide cover for risks. They generally arise where funding exceeds expenditure, usually due to the timing of receipts being ahead of incurring expenditure. As a matter of good practice, a review is undertaken each year to establish the continued need for reserves held for earmarked purposes to ensure resources can be used to best effect whilst maintaining a prudent level of reserves to meet future anticipated commitments.

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Unusable Reserves

The council also holds a number of unusable reserves, which arise as a result of statutory or accounting adjustments and cannot be used for expenditure on services. These include unrealised gains and losses, particularly in relation to the revaluation of property, and adjustment accounts, which absorb the timing difference between the outcome of applying accounting practice and the amounts required to be charged to the financial statements under statute.

The following accounts normally represent the most significant movements in unusable reserves and are explained further in note 30:

- Revaluation reserve;
- Pensions reserve; and
- Capital adjustment account.

The movement in unusable reserves is largely due to the increase in the Capital adjustment account, as a result of increased capital grants and contributions, offset by the increase in the Dedicated Schools Grant (DSG) deficit which is accounted for as a negative reserve as permitted by statutory override.

Financial Resilience and Sustainability

The council's future financial resilience and sustainability is underpinned by robust financial planning to identify key pressures and funding gaps to inform savings and transformation plans which are aligned to strategic and statutory priorities and consistent with workforce, capital, investment and other operational plans.

The approved budget and MTFS for 2026/27 builds on the prudent approach and robust financial management now embedded across the council: to preserve and protect the council's future financial resilience and sustainability through robust and reliable management of the revenue budget and capital programme and delivery of realistic, achievable and recurrent savings on time and in full.

A sustainable financial strategy has been developed for 2026/27 and onwards, to ensure the council can achieve an ambitious programme of investment, service improvements and transformation to deliver the best for Herefordshire.

The council has developed a 4-year Medium Term Financial Strategy (MTFS) for the period from 2026/27 to 2029/30 to manage risks to its financial resilience including future demand for services and assumptions in funding.

The most significant medium term financial risks identified are:

- **Increasing demand for Adults and Children's Social Care:** Demand led pressures are reflected within our spending plans; additional funding to support increased demand has been applied to Community Wellbeing and Children & Young People Directorate base budgets for 2026/27. In year monitoring of performance and relevant activity data enables Directorates to forecast trends and identify changes in demand. The balance remaining in the Budget Resilience Reserve at 31 March 2026 will be carried forward to mitigate the risks of excessive cost pressures and volatility in demand in 2026/27.
- **Safeguarding the financial position of the council:** High risk budget areas have been identified and financial support is targeted in these areas. Robust and regular financial monitoring which is reported to Directorate and Corporate Leadership Teams and Cabinet enables the timely identification of actions to mitigate the risk of overspends. Directorate Savings Boards will provide additional oversight to the delivery of approved savings in 2026/27 and work to identify savings for future years, as part of the Future Financial Strategy, will take place from April 2026.
- **Improvement in Children's Services:** The council will continue to work with the Department for Education and the appointed Commissioner for Children's Services to deliver transformation and maintain improvements through the Phase 3 Improvement Plan and Ofsted Outcome Action Plan in 2026/27.

Narrative report

- **Volatility in government funding streams:** The government settlement for 2026/27 is a multi-year settlement; the MTFS reflects prudent estimates and assumptions in financial planning over the medium-term period. The MTFS will be updated to reflect the impact for the council of the multi-year Settlement and in-year funding allocations as further information is released.
- **Uncertainty in rates of interest and inflation:** The council's approved Treasury Management Strategy is informed by latest forecasts, provided by our external Treasury Management Advisors. Increases in borrowing rates will be offset by increases in investment returns.
- **High Needs Budgets:** These budgets are funded by the Dedicated Schools Grant (DSG), however any overspend remains a council liability. The forecast cumulative deficit position over the medium-term period represents a significant financial pressure for the council, in line with the national trend. The cumulative DSG deficit is accounted for as an unusable reserve on the council's Balance Sheet, as permitted via statutory instrument, which will remain in place until 31 March 2028. This enables all local authorities to ring-fence the DSG deficit from the overall financial position in the statutory accounts. The High Needs Stability Grant, to be provided by Government as part of wider SEND reform, will cover up to 90% of High Needs-related deficit accrued up to the end of March 2026, with the remaining 10% balance to be a liability of the council at the end of the statutory override period. Proposed activity through the future capital programme, DSG deficit management plan, continued Home to School transport review alongside wider SEND reform, including the High Needs Stability Grant, is expected to have a positive impact on local sufficiency and the council's future financial position.

Financial Interests in other organisations

The group accounts show the full extent of the council's economic activities by reflecting the council's interests in other organisations. Inclusion in the Herefordshire Council group is dependent upon the extent of the council's interest and control over the entity. Where an entity is considered to be below materiality levels or the council does not exercise significant influence, it is not included in the group accounts.

In 2025/26, the group accounts include the council's interest in its subsidiary: Hoople Ltd. The financial position of the council, including its interest in Hoople Ltd is presented in the Group accounts at pages 92 to 98.

Rachael Sanders, Director of Finance and Section 151 Officer

29/09/2026

Statement of responsibilities

The Council's Responsibilities

The council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Section 151 Officer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the statement of accounts.

The Section 151 Officer - Responsibilities

The Section 151 Officer is responsible for the preparation of the council's statement of accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Section 151 Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the local authority Code of Practice.

The Section 151 Officer has also:

- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Chief Finance Officer (Section 151 Officer)

In accordance with Regulation 9(1) of the Accounts and Audit Regulations 2015, I certify that the audited Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council and its group as at 31 March 2026 and its income and expenditure for the year ended 31 March 2026.

Rachael Sanders, Director of Finance and Section 151 Officer

29/09/2026

Audit and Governance Committee Approval

In accordance with Regulation 9(2) of the Accounts and Audit Regulations 2015, I certify that Audit and Governance Committee approved the Statement of Accounts for 2025/26.

David Hitchiner, Chair of the Audit and Governance Committee

29/09/2026



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Financial statements



Comprehensive income and expenditure statement

The comprehensive income and expenditure statement shows the accounting costs in year of services provided by the council. This is prepared in accordance with International Financial Reporting Standards (IFRS) rather than the amount to be funded from taxation. The taxation position is shown in the movement in reserves statement.

2024/25 Gross expenditure £m	2024/25 Gross income £m	2024/25 Net expenditure £m	Comprehensive income and expenditure	Note	2025/26 Gross expenditure £m	2025/26 Gross income £m	2025/26 Net expenditure £m
209.6	(147.2)	62.4	Children and Young People		222.5	(152.9)	69.6
147.6	(77.2)	70.4	Community Wellbeing		157.0	(80.1)	76.9
99.3	(36.1)	63.2	Economy and Environment		102.1	(37.4)	64.7
70.4	(42.3)	28.1	Corporate Services		65.0	(33.9)	31.1
526.9	(302.8)	224.1	Net cost of services	8	546.6	(304.3)	242.3
35.3	-	35.3	Other operating expenditure	10	7.7	-	7.7
11.4	(8.2)	3.2	Financing and investment income and expenditure	11	10.1	(12.2)	(2.1)
-	(246.5)	(246.5)	Taxation and non-specific grant income	12	-	(247.0)	(247.0)
573.6	(557.5)	16.1	(Surplus)/deficit on the provision of services	9.1	564.4	(563.5)	0.9
		(8.2)	(Surplus)/deficit on revaluation of non-current assets	19.3			(7.1)
		(1.1)	Re-measurement of the net defined benefit liability	T1.3			1.2
		(9.3)	Other comprehensive (income) and expenditure				(5.9)
		6.8	Total comprehensive (income) and expenditure				(5.0)

Balance sheet

The balance sheet shows the value of the assets and liabilities of the council, with the net assets matched by the reserves held. Reserves are categorised as usable (those the council can use to provide services), and unusable (those which cannot be used to provide services).

31 March 2025 £m	Balance sheet	Note	31 March 2026 £m
697.5	Property, plant and equipment	19.1	743.8
48.5	Investment property	20	51.5
0.7	Intangible assets		1.3
4.4	Heritage assets		4.4
35.6	Long term debtors	T2.2	35.7
786.7	Long term assets		836.7
10.4	Short term investments	T2.2	16.6
0.3	Inventories		0.6
54.7	Short term debtors	22	51.2
38.6	Cash and cash equivalents	23	45.3
104.0	Current assets		113.7

31 March 2025 £m	Balance sheet	Note	31 March 2026 £m
(8.3)	Short term borrowing	T2.3	(24.3)
(56.8)	Short term creditors	24.1	(58.8)
(6.7)	Short term grants receipts in advance	24.2	(5.9)
(3.6)	Short term provisions		(4.5)
(3.3)	Cash and cash equivalents	23	(3.1)
(78.7)	Current liabilities		(96.6)
(1.4)	Long term provisions		(1.4)
(130.5)	Long term borrowing	T2.3	(172.3)
(14.9)	Capital grants receipts in advance	25	(15.7)
(55.3)	Other long term liabilities	T2.3	(49.5)
(202.1)	Total long term liabilities		(238.9)
609.9	Net assets		614.9
(168.4)	Usable reserves	29	(146.0)
(441.5)	Unusable reserves	30	(468.9)
(609.9)	Total reserves		(614.9)

Rachael Sanders, Director of Finance and Section 151 Officer

29/09/2026

Movement in reserves statement

The movement in reserves statement shows the movement on the different reserves held, analysed into usable and unusable reserves.

Movement in reserves statement	General fund £m	Earmarked reserves £m	Total general fund £m	Capital receipts reserve £m	Capital grants unapplied £m	Total usable reserves £m	Total unusable reserves £m	Total reserves £m
Balance at 31 March 2024	(9.6)	(73.2)	(82.8)	(38.2)	(30.8)	(151.8)	(464.9)	(616.7)
Total comprehensive income and expenditure	16.1	-	16.1	-	-	16.1	(9.3)	6.8
Adjustments between accounting basis and funding basis under regulations (note 28)	(24.1)	-	(24.1)	3.4	(12.0)	(32.7)	32.7	-
Transfers (to)/from earmarked reserves (note 31)	7.5	(7.5)	-	-	-	-	-	-
(Increase)/decrease in year	(0.5)	(7.5)	(8.0)	3.4	(12.0)	(16.6)	23.4	6.8
Balance at 31 March 2025	(10.1)	(80.7)	(90.8)	(34.8)	(42.8)	(168.4)	(441.5)	(609.9)
Total comprehensive income and expenditure	0.9	-	0.9	-	-	0.9	(5.9)	(5.0)
Adjustments between accounting basis and funding basis under regulations (note 28)	8.9	-	8.9	5.6	7.0	21.5	(21.5)	-
Transfers (to)/from earmarked reserves (note 31)	(9.8)	9.8	-	-	-	-	-	-
(Increase)/decrease in year	-	9.8	9.8	5.6	7.0	22.4	(27.4)	(5.0)
Balance at 31 March 2026	(10.1)	(70.9)	(81.0)	(29.2)	(35.8)	(146.0)	(468.9)	(614.9)
Note		31				29	30	

Cash flow statement

The cash flow statement shows the change in cash and cash equivalents of the council, and classifies the cash as operating, investing and financing activities. The amount of net cash arising from operating activities is a key indicator of the extent to which the operations of the council are funded by way of taxation, grant income and fees and charges.

2024/25 £m	Cash flow statement	Note	2025/26 £m
16.1	Net (surplus)/deficit on the provision of services		0.9
(61.4)	Adjust net (surplus)/deficit on the provision of services for non-cash movements	32.1	(31.4)
45.7	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	32.2	40.6
0.4	Net cash flows from operating activities		10.1
1.8	Net cash flows from investing activities	33	36.1
(14.4)	Net cash flows from financing activities	34.1	(53.1)
(12.2)	Net (increase)/decrease in cash and cash equivalents		(6.9)
23.1	Cash and cash equivalents at 1 April		35.3
35.3	Cash and cash equivalents at 31 March	23	42.2
12.2	Net increase/(decrease) in cash and cash equivalents		6.9

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General notes to the financial statements

1. General accounting policies

The council is required to produce an annual statement of accounts by the Accounts and Audit Regulations 2015 (as amended), which require the accounts to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the code of practice on local authority accounting in the United Kingdom 2025/26, supported by International Financial Reporting Standards. The single entity statements and the statement of group accounts have consistently applied the accounting policies detailed within each note. Where applicable, the statement of group accounts include additional accounting policies specific to the council's subsidiary undertaking, Hoople Ltd.

The Accounts and Group Accounts have been prepared on a going concern basis, under the assumption that the council and its subsidiary will continue in existence for the foreseeable future.

2. Accounting standards that have been issued but have not yet been adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the code of practice of local authority accounting in the United Kingdom, these are:

- Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (Amendments to Heritage assets) issued in March 2024
- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7) issued in May 2024
- Annual improvements to IFRS accounting standards – volume 11 issued in July 2024
- Contracts referencing nature-dependent electricity (Amendments to IFRS 9 and IFRS 7) issued in December 2024.

None of these amendments are expected to have a significant impact on the council's accounts in future years.

General notes to the financial statements

3. Critical judgements in applying accounting policies

In applying accounting policies the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in these statement of accounts are:

Interest in companies and other entities

An assessment of all the council's interests has been carried out to determine whether a group relationship between the council and other entities exists on the basis of control and significant influence. Hoople Ltd has been assessed to be a subsidiary because the council owns 80% of the share capital and has been consolidated in the group accounts. Cyber Quarter Ltd has been assessed to be a subsidiary because the council owns 100% of the share capital and has not been included in the group accounts due to materiality. West Mercia Energy has been assessed to be a joint venture because the owning authorities have rights to the net assets of the arrangement and has not been included in the group accounts due to materiality.

Schools' assets

The council makes a judgement as to whether to account for schools' assets as if they are owned (on balance sheet) or not owned (off balance sheet). This is an assessment based on the level of control and decision-making. The council has assessed that all community, voluntary-aided and voluntary-controlled schools are included on the balance sheet, this is because the council benefits from the service provision within the building and the flow of economic benefits. There are assets included in land and buildings within property, plant and equipment with a net book value of £217.4 million as at 31 March 2026 (£216.2 million as at 31 March 2025). Free schools and academy schools are not included on the balance sheet.

Energy from Waste plant

The council has made a judgement to categorise the Energy from Waste plant under "Vehicles, plant, furniture and equipment" instead of "Land and buildings". This categorisation reflects the purpose and value of the asset.

Shaw Healthcare contract

The council has made a judgement that the contract with Shaw Healthcare to develop residential homes and day centres falls under the definition of a PFI contract and is therefore accounted for as a PFI scheme. This is because it meets the criteria for a service concession under IFRIC 12. There is a PFI asset included in PPE on the balance sheet, and a corresponding liability on the balance sheet.

General notes to the financial statements

4. Assumptions made about the future and major sources of estimation uncertainty

The statement of accounts contains estimated figures that are based on assumptions made by the council about the future or events that are otherwise uncertain. Estimates are made based on historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the balance sheet at 31 March 2026 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment valuations	The council's external valuers provide valuations at 31 March based on a rolling programme of valuations. The valuations are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. The valuers also provide indices which are applied to those assets not valued in year. The value of the property, plant and equipment is dependent upon professional judgement based on information available at the time of valuation.	A variation of 5% in the value of Property, plant and equipment would be approximately £37.2 million from the closing net book value of £743.8 million. A reduction in the estimated valuations would result in a reduction to the revaluation reserve and/or a loss charged to the comprehensive income and expenditure statement. An increase in estimated valuations would result in the reversal of any negative revaluations previously charged to the comprehensive income and expenditure statement and/or increases to the revaluation reserve and/or gains charged to the comprehensive income and expenditure statement.

General notes to the financial statements

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions net asset/liability valuation	The net liability to pay pensions is calculated every three years with annual updates in the intervening years. A firm of consulting actuaries (Hymans Robertson) is engaged to provide the council with expert advice about the assumptions to be applied. Changes to these underlying assumptions can result in significant variances in the calculated liability. The assumptions and complex judgements applied include the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. When a net pension asset is calculated, there is a restriction on the recognition of that asset to the estimated future benefit from that asset in reduced pension contributions. The calculation of this net pension asset ceiling is also subject to actuarial assumptions.	The effects on the scheme liabilities (£539.5 million at 31 March 2026) of changes in individual assumptions can be measured. For instance: A 0.1% decrease in the discount rate used would increase the liability by £8.0 million. A 0.1% increase in the inflation rate used would increase the liability by £7.7 million. A 0.1% increase in the rate of pay growth used would increase the liability by £0.3 million. An increase of one year in assumed life expectancy used would increase the liability by £21.6 million.

General notes to the financial statements

5. Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively. Material errors in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

General notes to the financial statements

6. Events after the reporting period

Events after the reporting period are those that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue.

There are two types of event;

- Those that provide evidence of conditions at the end of the reporting period, which are adjusted in the accounts; and
- Those that relate to conditions after the reporting period, which are not adjusted in the accounts, and disclosed in the notes to the statements

Adjusting events

There are no material adjusting events that have occurred after the reporting period.

Non-adjusting events

There are no material non-adjusting events that have occurred after the reporting period.

General notes to the financial statements

7. Related party transactions

Central government

Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding in the form of grants.

Elected Members

Elected Members of the council have direct control over the council's financial and operating policies. A total of £0.9 million allowances and expenses were paid to members in 2025/26 (2024/25 £0.9 million). Elected members of the council may be involved with other local organisations that provide services for or receive services from the council. For 2025/26, there are no material transactions for services to organisations in which Members have declared interests.

Officers

Officers of the council may be involved with other local organisations that provide services for or receive services from the council. For 2025/26, there are no material transactions for services to organisations in which officers have declared interests.

Hoople Ltd

Hoople Ltd is a private limited company which provides business support services to clients in the public and private sectors. Hoople Ltd is owned jointly by Herefordshire Council, Wye Valley NHS Trust and Lincolnshire County Council. The company has been identified as a subsidiary, with the council its majority shareholder. Group accounts have been prepared as the subsidiary is assessed to be material.

In 2025/26, the council spent £19.6 million (2024/25 £19.4 million) on services from the company and received £0.6 million (2024/25 £1.0 million) in income from the company. This is reflected in the single entity comprehensive income and expenditure statement. There is a debtor of £1.0 million (2024/25 £0.6 million) and a creditor of £1.9 million (2024/25 £1.2 million) outstanding at 31 March 2026 and these balances are included in the single entity balance sheet.

The company's Board includes 2 Directors who are employed by the council, these individuals did not receive any remuneration from the company during the year.

Section 75 Framework Partnership Agreements

The council has 3 pooled budgets covered by a single section 75 agreement between Herefordshire Council and Herefordshire and Worcestershire NHS Integrated Commissioning Board. The transactions during the year are disclosed in note 15.

General notes to the financial statements

West Mercia Energy Joint Committee

The council is represented by its elected members on the West Mercia Energy Joint Committee (WME). WME offers energy procurement and management on behalf of its four owning authorities and a number of outside bodies. WME is constituted as a Joint Committee and the council is one of four constituent authorities, alongside Shropshire Council, Worcestershire County Council and Telford and Wrekin Council. The parties have rights to the net assets of the arrangement and, as such, this is judged to be a joint venture. This joint venture is not consolidated into the Group Accounts because it is not considered to be material. The council paid £2.2 million to WME in 2025/26 (2024/25 £2.5 million) and received £1.0 million (2024/25 £0.1 million); these transactions are reflected in the comprehensive income and expenditure statement. There is a debtor of £0.6 million (2024/25 £0.5 million) outstanding at the year-end and this balance is included in the single entity balance sheet.

Cyber Quarter Limited

In March 2019, the council entered into a partnership with the University of Wolverhampton to establish the Midlands Centre for Cyber Security in Skylon Park, Herefordshire Enterprise Zone through the company: Cyber Quarter Limited. Since 8 July 2024, the council owns 100% of the share capital and this interest is accounted for as a long term investment in the single entity balance sheet. The company is a wholly owned subsidiary, which is not consolidated into the Group Accounts because it is not considered to be material.

In 2019 a commercial loan of £3.5 million was granted by the council to Cyber Quarter Limited. This is shown as a long term debtor in the council accounts. The interest rate is fixed at 5.99% and repayment over 30 years with no repayments due in the first five years, equal repayments falling due thereafter.

Notes supporting the comprehensive income and expenditure statement

8. Expenditure and funding analysis

The objective of the expenditure and funding analysis (EFA) is to demonstrate to council tax payers how the funding available to the council for the year (i.e. government grants, rents, council tax and business rates) has been applied in providing services in comparison with those resources consumed or earned by the council in accordance with generally accepted accounting practices. The expenditure and funding analysis also shows how this expenditure is allocated for decision-making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the comprehensive income and expenditure statement.

Expenditure and funding analysis	2025/26 Net expenditure for internal reporting £m	2025/26 Adjustments to arrive at Net expenditure chargeable to the general fund £m	2025/26 Net expenditure chargeable to the general fund £m	2025/26 Adjustments between accounting basis and funding basis under regulations £m	2025/26 Net expenditure in the CIES £m
Children and Young People	57.6	1.1	58.7	10.9	69.6
Community Wellbeing	94.1	(15.6)	78.5	(1.6)	76.9
Economy and Environment	42.6	28.7	71.3	(6.6)	64.7
Corporate Services	37.2	7.5	44.7	(13.6)	31.1
Net cost of services	231.5	21.7	253.2	(10.9)	242.3
Other income and expenditure	(231.5)	(11.9)	(243.4)	2.0	(241.4)
(Surplus)/deficit on the provision of services	-	9.8	9.8	(8.9)	0.9
Opening general fund balance at 1 April			(90.8)		
(Surplus)/deficit			9.8		
Closing general fund balance at 31 March			(81.0)		
Note		8.2	29	28, 8.1	

Notes supporting the comprehensive income and expenditure statement

Expenditure and funding analysis	2024/25 Net expenditure for internal reporting £m	2024/25 Adjustments to arrive at Net expenditure chargeable to the general fund £m	2024/25 Net expenditure chargeable to the general fund £m	2024/25 Adjustments between accounting basis and funding basis under regulations £m	2024/25 Net expenditure in the CIES £m
Children and Young People	56.9	(4.5)	52.4	10.0	62.4
Community Wellbeing	77.8	(8.4)	69.4	1.0	70.4
Economy and Environment	38.0	(1.1)	36.9	26.3	63.2
Corporate Services	39.6	27.9	67.5	(39.4)	28.1
Net cost of services	212.3	13.9	226.2	(2.1)	224.1
Other income and expenditure	(212.8)	(21.4)	(234.2)	26.2	(208.0)
(Surplus)/deficit on the provision of services	(0.5)	(7.5)	(8.0)	24.1	16.1
Opening general fund balance at 1 April			(82.8)		
(Surplus)/deficit			(8.0)		
Closing general fund balance at 31 March			(90.8)		
Note		8.2	29	28, 8.1	

Notes supporting the comprehensive income and expenditure statement

8.1. Note to the expenditure and funding analysis – adjustments between accounting basis and funding basis under regulations

2024/25 Adjustments for capital purposes £m	2024/25 Adjustments for pensions purposes £m	2024/25 Adjustments for other purposes £m	2024/25 Total adjustments £m	Adjustments between accounting basis and funding basis under regulations	2025/26 Adjustments for capital purposes £m	2025/26 Adjustments for pensions purposes £m	2025/26 Adjustments for other purposes £m	2025/26 Total adjustments £m
(2.6)	(1.3)	13.9	10.0	Children and Young People	(2.5)	(2.9)	16.3	10.9
1.5	(0.5)	-	1.0	Community Wellbeing	(0.5)	(1.1)	-	(1.6)
26.7	(0.4)	-	26.3	Economy and Environment	(5.7)	(0.9)	-	(6.6)
(40.3)	0.9	-	(39.4)	Corporate Services	(12.5)	(1.1)	-	(13.6)
(14.7)	(1.3)	13.9	(2.1)	Net cost of services	(21.2)	(6.0)	16.3	(10.9)
29.4	0.7	(3.9)	26.2	Other income and expenditure	1.0	0.7	0.3	2.0
14.7	(0.6)	10.0	24.1	(Surplus)/deficit on the provision of services	(20.2)	(5.3)	16.6	(8.9)

Adjustments for capital purposes include depreciation, revaluation losses, statutory provision for the repayment of debt, capital grants, disposals and other capital adjustments. Adjustments for pension purposes represent the removal of the employer pension contributions made by the council as allowed by statute and the replacement with current and past service costs. Adjustments for other purposes include collection fund, DSG reserve movements and short term absences reserve movements.

Notes supporting the comprehensive income and expenditure statement

8.2. Note to the expenditure and funding analysis – adjustments to arrive at Net expenditure chargeable to the general fund

2024/25 Capital adjustments not included in internal reporting £m	2024/25 Other adjustments not included in internal reporting £m	2024/25 Recharges included in internal reporting but removed for financial statements £m	2024/25 Reserve movement not included in internal reporting £m	2024/25 Total adjustments £m	Adjustments to arrive at net expenditure chargeable to the general fund	2025/26 Capital adjustments not included in internal reporting £m	2025/26 Other adjustments not included in internal reporting £m	2025/26 Recharges included in internal reporting but removed for financial statements £m	2025/26 Reserve movement not included in internal reporting £m	2025/26 Total adjustments £m
8.3	(12.4)	-	(0.4)	(4.5)	Children and Young People	6.2	(4.6)	(0.1)	(0.4)	1.1
2.8	(14.3)	(0.6)	3.7	(8.4)	Community Wellbeing	1.3	(19.2)	(0.6)	2.9	(15.6)
0.8	(2.0)	(4.7)	4.8	(1.1)	Economy and Environment	34.8	(5.5)	(5.2)	4.6	28.7
41.5	(18.3)	8.1	(3.4)	27.9	Corporate Services	15.2	(18.4)	8.6	2.1	7.5
53.4	(47.0)	2.8	4.7	13.9	Net cost of services	57.5	(47.7)	2.7	9.2	21.7
(39.2)	15.9	(4.9)	6.8	(21.4)	Other income and expenditure	(38.9)	29.9	(6.5)	3.6	(11.9)
14.2	(31.1)	(2.1)	11.5	(7.5)	(Surplus)/deficit on the provision of services	18.6	(17.8)	(3.8)	12.8	9.8

Capital adjustments include a statutory provision for the repayment of debt, revaluation losses, capital grants and other capital adjustments. Other adjustments include PFI and lease adjustments and adjustments above and below Net Cost of Services.

Notes supporting the comprehensive income and expenditure statement

9.1. Nature of income and expenditure

2024/25 £m	Nature of income and expenditure	2025/26 £m
	Income	
(48.5)	Fees, charges and other service income	(53.3)
(2.9)	Trading and investment income	(7.1)
(5.3)	Interest and investment income	(5.1)
(177.4)	Income from council tax and non-domestic rates	(189.0)
(323.4)	Government grants and contributions	(309.0)
(557.5)	Total Income	(563.5)
	Expenditure	
146.4	Employee benefits expenses	145.5
317.5	Other service expenses	341.7
10.0	Support services recharges (net)	14.0
29.4	Loss on disposal of non-current assets	1.2
53.0	REFCUS, depreciation, amortisation and impairment	45.4
3.0	Trading and investment expenditure	0.6
8.4	Interest expense	9.5
5.9	Precepts and levies	6.5
573.6	Total expenditure	564.4
16.1	(Surplus)/deficit on the provision of services	0.9

Revenue recognition

Income and expenditure is accounted for in the financial year in which the activity it relates to takes place, which may not be the same year in which cash payments are made or received. Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet, subject to a de-minimis threshold of £5,000 for revenue and £10,000 for capital.

Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority. Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised at the point that the service is provided or is charged for. Value Added Tax (VAT) payable is included as an expense only to the extent that it is not recoverable from His Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

Notes supporting the comprehensive income and expenditure statement

9.2. Segmental reporting

2025/26	Children and Young People £m	Community Wellbeing £m	Economy and Environment £m	Corporate Services £m	Total £m
Fees, charges and other service income	(7.3)	(17.3)	(21.9)	(6.8)	(53.3)
Employee benefits expenses	101.9	20.8	14.8	8.0	145.5
Premises costs	7.4	(1.3)	4.5	(0.1)	10.5
Transport costs	1.0	0.5	16.7	-	18.2
Supplies and services	33.4	12.8	5.1	8.5	59.8
Third party payments	36.4	120.2	34.8	7.0	198.4
Transfer payments	21.1	1.2	1.7	30.8	54.8
REFCUS, depreciation, amortisation and impairment	7.1	3.1	32.5	2.7	45.4
Support services	14.1	(0.4)	(8.1)	8.4	14.0

2024/25	Children and Young People £m	Community Wellbeing £m	Economy and Environment £m	Corporate Services £m	Total £m
Fees, charges and other service income	(6.6)	(17.6)	(22.2)	(2.1)	(48.5)
Employee benefits expenses	102.8	18.8	13.5	11.3	146.4
Premises costs	7.8	(1.4)	4.8	0.3	11.5
Transport costs	1.2	0.6	13.9	-	15.7
Supplies and services	27.7	13.2	6.2	8.7	55.8
Third party payments	36.7	107.3	29.9	6.7	180.6
Transfer payments	16.2	1.5	3.3	32.9	53.9
REFCUS, depreciation, amortisation and impairment	7.0	7.8	35.4	2.8	53.0

Notes supporting the comprehensive income and expenditure statement

10. Other operating expenditure

2024/25 £m	Other operating expenditure	2025/26 £m
5.7	Parish council precepts	6.3
0.2	Levies	0.2
29.4	(Gains)/losses on the disposal of non-current assets	1.2
35.3	Total other operating expenditure	7.7

11. Financing and investment income and expenditure

2024/25 £m	Financing and investment income and expenditure	2025/26 £m
7.7	Interest payable and similar charges	8.9
0.7	Net interest of the defined net pension liability	0.6
(5.3)	Interest receivable	(5.1)
0.1	Income and expenditure of trading accounts and investment properties	(6.5)
3.2	Total financing and investment income and expenditure	(2.1)

Notes supporting the comprehensive income and expenditure statement

12. Taxation and non-specific grant income

2024/25 £m	Taxation and non-specific grant income	2025/26 £m
(141.4)	Council tax income	(152.2)
(36.0)	Non-domestic rates income	(36.8)
(25.5)	Non-ring fenced government grants	(19.7)
(43.6)	Capital grants and contributions	(38.3)
(246.5)	Total taxation and non-specific grant income	(247.0)

The council tax and non-domestic rates income is accounted for on an accruals basis and included in the comprehensive income and expenditure statement within taxation and non-specific grant income. As a billing authority, the difference between the non-domestic rates and council tax included in the comprehensive income and expenditure statement and the amount required by regulation credited to the general fund is taken to the collection fund adjustment account and reported in the movement in reserves statement.

Revenue relating to council tax and non-domestic rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

Notes supporting the comprehensive income and expenditure statement

13. Grant income

2024/25 £m	Grant income	2025/26 £m
(1.0)	Revenue support grant	(1.4)
(24.5)	Other non-ring fenced grants	(18.3)
(43.6)	Capital grants	(38.3)
(69.1)	Total grants credited to taxation and non-specific grant income	(58.0)
(120.5)	Department for Education	(125.2)
(47.5)	Ministry of Housing, Communities and Local Government	(47.3)
(30.8)	Department for Work and Pensions	(24.7)
(1.4)	Department for Transport	(3.2)
(3.6)	Department for Energy, Security and Net Zero	(0.7)
(1.2)	Department for Environment, Food and Rural affairs	(4.1)
(11.8)	Department for Health	(12.2)
(37.5)	Other grants and contributions	(33.6)
(254.3)	Total grants credited to services	(251.0)
(323.4)	Total grant income	(309.0)

Grants and contributions are recognised in the accounts when there is reasonable assurance that the council will comply with any conditions attached to them and the grants or contributions will be received.

Revenue grants are recognised in the comprehensive income and expenditure statement when any relevant conditions have been satisfied. Grant monies unspent at the end of the year are transferred to an earmarked reserve. When the grant is applied, an amount equal to the expenditure is transferred back from the earmarked reserve to the general fund. Where conditions attached to the grants or contributions have not been met, monies received to date are carried in the balance sheet as receipts in advance and credited to the comprehensive income and expenditure statement when the conditions are satisfied.

Capital grants are credited to the comprehensive income and expenditure statement when any relevant conditions have been satisfied. Where the grant has yet to be used to finance capital expenditure, it is transferred to the capital grants unapplied reserve; where grant conditions have not been satisfied then the monies received are carried in the balance sheet as receipts in advance.

Notes supporting the comprehensive income and expenditure statement

14. Dedicated schools grant

The council's expenditure on schools is funded by the dedicated schools grant (DSG) provided by the Department for Education. DSG is a ring-fenced grant and can only be applied to meet expenditure properly included in the schools budget, as defined in the School Finance and Early Years (England) Regulations 2025. The schools budget includes elements for a restricted range of services provided on a council-wide basis and for the individual schools budget, which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

The council submitted its Local SEND Reform Plan to the Department for Education (DfE) on 19 June 2026. Subject to DfE approval of the Plan, the council could receive up to 90% of the reported DSG deficit at 31 March 2026 (£32.7 million), expected to be received in Autumn 2026.

*restated 2024/25 Total £m	Dedicated schools grant	2025/26 Central expenditure £m	2025/26 Individual schools budget £m	2025/26 Total £m
(174.8)	Final DSG allocation before academy and high needs recoupment	-	-	(191.8)
67.2	Less academy and high needs figure recouped	-	-	77.3
(107.6)	Total DSG after academy and high needs recoupment for the year	-	-	(114.5)
(107.6)	Agreed initial budgeted distribution for the year	(48.5)	(66.0)	(114.5)
0.1	In-year adjustments	0.5	-	0.5
(107.5)	Final budgeted distribution for the year	(48.0)	(66.0)	(114.0)
54.9	Less actual central expenditure	64.3	-	64.3
66.5	Less actual individual schools budget deployed to schools	-	66.0	66.0
13.9	In year carry forward to following year	16.3	-	16.3
13.9	Carried forward to following year	-	-	16.3
6.1	DSG unusable deficit reserve at the end of the prior year	-	-	20.0
13.9	In year addition to the DSG unusable deficit reserve	-	-	16.3
20.0	Total DSG unusable deficit reserve at the end of the year	-	-	36.3

*restated in-year adjustments and individual schools budget following ESFA review

Notes supporting the comprehensive income and expenditure statement

15. Pooled budgets

Pooled budgets exist where neither partner has sole control of the pooled fund. These arrangements meet the definition of a joint operation, where the partners have joint control over the arrangement, the rights to the arrangement's assets and obligations for the arrangement's liabilities.

2024/25 Pooled income £m	2024/25 Pooled expenditure £m	2024/25 Net pooled expenditure £m	2024/25 HC managed £m	2024/25 ICB managed £m	Pooled budgets	2025/26 Pooled income £m	2025/26 Pooled expenditure £m	2025/26 Net pooled expenditure £m	2025/26 HC managed £m	2025/26 ICB managed £m
(30.0)	29.9	(0.1)	17.6	12.3	Consolidated better care fund	(31.2)	30.9	(0.3)	19.0	11.9
(5.9)	5.9	-	5.0	0.9	Consolidated Children's Services	(3.8)	3.8	-	3.2	0.6
(1.9)	1.7	(0.2)	0.7	1.0	Integrated community equipment store	(2.0)	2.4	0.4	1.1	1.3
(37.8)	37.5	(0.3)	23.3	14.2	Total	(37.0)	37.1	0.1	23.3	13.8

The council has 3 pooled budgets covered by a single section 75 agreement between Herefordshire Council and Herefordshire and Worcestershire NHS Integrated Commissioning Board (ICB). Within the section 75 agreement there are budgets primarily managed by the ICB, budgets primarily managed by the council, pooled budgets (jointly controlled) and aligned budgets. Where services are primarily managed by the council, the income and expenditure are reflected within the net cost of services in the comprehensive income and expenditure statement. This also includes the council's proportion of jointly controlled pooled budgets. Where services are primarily managed by the ICB, the income and expenditure is not reflected in the council's accounts.

The consolidated better care fund comprises the minimum revenue pool, the capital pool, the additional revenue pool and the improved better care fund, and aims to further the integration between health and social care. The consolidated children's services fund aims to improve provision of services to young people with complex educational, social and medical needs. The integrated community equipment store fund aims to provide specialist equipment to people within the community.

Notes supporting the comprehensive income and expenditure statement

16. Officers' remuneration

16.1. Officers' remuneration over £50,000 per annum

Officers' remuneration is defined as 'all amounts paid to or receivable by a person and includes sums due by way of expenses allowances (so far as those sums are chargeable to UK income tax), and the estimated money value of any other benefits received by an employee other than in cash (e.g. benefits in kind)'. Benefits in kind are salary sacrificed amounts for the provision of car parking and bicycles.

All amounts receivable by council employees, including salary, expenses allowances and compensation for loss of employment, where this total is more than £50,000 per annum are shown in the table below. These numbers include the employees shown in the senior employees' disclosure note.

2024/25 Number of school staff	2024/25 Number of non-school staff	2024/25 Total number	Salary banding	2025/26 Number of school staff	2025/26 Number of non-school staff	2025/26 Total number
62	47	109	£50,000 to £55,000	93	57	150
42	40	82	£55,001 to £60,000	51	45	96
24	40	64	£60,001 to £65,000	38	46	84
14	25	39	£65,001 to £70,000	16	21	37
11	6	17	£70,001 to £75,000	15	20	35
11	1	12	£75,001 to £80,000	7	1	8
1	3	4	£80,001 to £85,000	9	-	9
5	2	7	£85,001 to £90,000	2	1	3
-	1	1	£90,001 to £95,000	4	3	7
2	5	7	£95,001 to £100,000	-	2	2
1	1	2	£100,001 to £105,000	1	3	4
-	1	1	£105,001 to £110,000	2	1	3
-	1	1	£110,001 to £115,000	1	1	2
1	1	2	£115,001 to £120,000	-	1	1
-	1	1	£120,001 to £125,000	1	2	3
-	1	1	£140,001 to £145,000	-	-	-
-	1	1	£145,001 to £150,000	-	-	-
-	-	-	£150,001 to £155,000	-	2	2
-	1	1	£165,001 to £170,000	-	-	-
-	-	-	£170,001 to £175,000	-	1	1
174	178	352	Total number of employees over £50,000	240	207	447

Notes supporting the comprehensive income and expenditure statement

16.2. Senior employees' remuneration

2025/26	Note	Salary, fees and allowances £000	Pension contributions £000	Total £000
Chief Executive (Paul Walker)		174	-	174
Director of Governance and Law/Monitoring Officer		121	-	121
Corporate Director, Children and Young People (Tina Russell)		155	29	184
Corporate Director, Community Wellbeing (Hilary Hall)		155	29	184
Corporate Director, Economy and Environment	1	67	13	80
Corporate Director, Economy and Environment	2	63	12	75
Director of Public Health		110	16	126
Director of HR and OD		108	20	128
Director of Finance/Section 151 Officer		120	22	142
Total		1,073	141	1,214

Notes:

1. The Corporate Director, Economy and Environment left in September 2025, the post was filled by an interim until the new Director was appointed
2. The Corporate Director, Economy and Environment was appointed in post on 27 October 2025

Notes supporting the comprehensive income and expenditure statement

2024/25	Note	Salary, fees and allowances £000	Pension contributions £000	Total £000
Chief Executive (Paul Walker)		169	-	169
Director of Resources and Assurance/Section 151 Officer	3	34	5	39
Director of Governance and Law/Monitoring Officer		117	-	117
Corporate Director, Children and Young People	4	112	21	133
Corporate Director, Community Wellbeing		150	28	178
Corporate Director, Economy and Environment		142	27	169
Director of Public Health	5	26	5	31
Director of HR and OD		97	18	115
Interim Director of Strategy and Performance	6	17	3	20
Director of Finance/Section 151 Officer	7	71	14	85
Total		935	121	1,056

Notes:

3. The Director of Resources and Assurance left on 30 June 2024; the role was replaced by the Director of Finance Role
4. The Corporate Director, Children and Young People commenced in post 1 July 2024; prior to this it was covered by the Corporate Director, Community Wellbeing
5. The Director of Public Health left on 30 June 2024; the post was filled by an interim until a new Director was appointed on 31 March 2025
6. The secondment as Director of Strategy and Performance ended 4 June 2024
7. The Director of Finance role commenced 29 July 2024

Notes supporting the comprehensive income and expenditure statement

17. Termination benefits

Termination benefits are recognised in the surplus or deficit on the provision of services at the earlier of when the council can no longer withdraw an offer of benefits, or when the council recognises the costs of restructuring. Termination benefits are payable as a result of either:

- An employer's decision to terminate an employee's employment; or
- An employee's decision to accept voluntary redundancy

The number and total cost per band of exit packages analysed between compulsory and other redundancies are set out in the table below. This includes exit packages agreed in the year although not yet actioned at the year end.

2024/25 Number of compulsory redundancies	2024/25 Number of other agreed departures	2024/25 Total number of exit packages	2024/25 Total cost of exit packages £000	Exit package cost banding	2025/26 Number of compulsory redundancies	2025/26 Number of other agreed departures	2025/26 Total number of exit packages	2025/26 Total cost of exit packages £000
6	25	31	252	£0 to £20,000	3	31	34	244
3	6	9	263	£20,001 to £40,000	1	-	1	26
-	1	1	73	£60,001 to £80,000	-	-	-	-
9	32	41	588	Total	4	31	35	270

Notes supporting the comprehensive income and expenditure statement

18. External audit costs

The fees payable to the appointed auditor, Grant Thornton UK LLP, are as follows.

restated 2024/25 £000	External audit costs	2025/26 £000
391	Scale fee incurred for external audit services	398
23	Expected additional fees for external audit services (to be approved by PSAA)	-
414	Total audit fees	398
-	Non audit fees confirmed relating to 21/22	2
10	Non audit fees confirmed relating to 22/23	-
58	Non audit fees confirmed relating to 23/24	27
68	Total non audit fees	29
482	Total external audit fees	427

External audit fees for 2024/25 have been restated to agree to final fees payable.

Notes supporting the balance sheet

19. Property, plant and equipment

Physical assets that support the delivery of our services and have a life of more than one financial year are classified as Property, Plant and Equipment (PPE).

Expenditure on PPE is capitalised on an accrual basis in the accounts, unless it is maintenance only in which case it is charged to the Comprehensive Income and Expenditure Statement when it is incurred. Purchased assets are initially measured at cost. Non-purchased assets are measured at fair value, or at the carrying amount where there is no commercial substance (e.g. via exchange). The detailed bases for measuring assets are given below:

- Community assets and assets under construction – historical cost
- Land and buildings – current value based on existing use for operational assets where there is an active market or depreciated replacement cost for assets of a more specialist nature
- Vehicles, plant and equipment – current value based on existing use for operational assets where there is an active market or depreciated replacement cost for assets of a more specialist nature
- Infrastructure assets - depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April [1994 England], which was deemed at that time to be historical cost

Capital expenditure that does not result in the creation of a long-term asset (Revenue Expenditure Funded from Capital under Statute, known as REFCUS) is charged as expenditure to the relevant service in the comprehensive income and expenditure statement. Where the cost of this expenditure is met from existing capital resources or by borrowing, a transfer in the movement in reserves statement from the general fund balance to the capital adjustment account is made.

Depreciation is provided for on PPE assets over their useful lives, with major components depreciated separately. Assets without a determinable finite useful life (e.g. freehold land and certain Community Assets) or that are not yet available for use (e.g. assets under construction) are not depreciated. The calculation is on a straight-line basis over the remaining useful life of the assets as estimated by the valuer (for buildings this is between 10 and 56 years and for Right of Use assets this is between 1 and 998 years). For those assets classed as vehicles, plant, furniture and equipment, useful economic lives are estimated to be 5 years, unless the individual asset life is known (e.g. the waste asset is 30 years). New assets are not subject to a depreciation charge in the year of acquisition.

Notes supporting the balance sheet

Revaluations

Assets are revalued every five years on a rolling basis in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards 2021 and UK National Supplement. Annual indexation is applied to assets during the four intervening years. Where indices cannot be obtained, assets are revalued once every five years with a desktop revaluation in year three.

The council's valuations as at 31 March 2026 have been completed by:

Mark Aldis (Hons) MRICS RICS Registered Valuer IRRV

Wilks Head & Eve LLP

3rd Floor 55 New Oxford Street

London WC1A 1BS

Where increases in value are identified, the carrying amount of the asset is increased with a corresponding entry for the gain in the revaluation reserve, unless it is reversing a previous revaluation decrease where it is charged to the surplus or deficit on provision of services.

Where decreases in value are identified, they are accounted for by:

- the carrying amount of the asset writing down the balance of revaluation gains for the asset in the revaluation reserve; or
- the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement where there is no, or insufficient, balance in the revaluation reserve

Upon revaluation (upwards or downwards) previously accumulated depreciation is eliminated and the asset shown at the newly revalued figure.

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service line(s) in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Notes supporting the balance sheet

19.1 Property, plant and equipment movements

At 31 March 2026	Land and buildings £m	Vehicles, plant, furniture and equipment £m	Community assets £m	Surplus assets £m	Assets under construction £m	Total property, plant and equipment £m	PFI assets included in PPE £m
Cost or valuation							
Opening balance at 1 April	389.4	48.0	1.6	4.2	3.8	447.0	47.5
Adjustment due to application of IFRS 16	1.1	1.0	-	-	-	2.1	2.1
Adjusted opening balance at 1 April	390.5	49.0	1.6	4.2	3.8	449.1	49.6
Additions	12.6	1.9	-	1.5	11.1	27.1	0.4
Disposals	(2.0)	-	-	(0.3)	-	(2.3)	-
Derecognition - other	-	(0.1)	-	-	-	(0.1)	-
Revaluation increases/(decreases) recognised in the revaluation reserve	6.7	0.3	-	0.1	-	7.1	0.6
Revaluation increases/(decreases) recognised in the surplus/deficit on provision of services	1.4	-	-	(0.1)	-	1.3	-
Reverse accumulated depreciation	(8.8)	(1.0)	-	-	-	(9.8)	(1.5)
Asset transfers	(2.6)	-	-	-	2.6	-	-
Closing balance at 31 March	397.8	50.1	1.6	5.4	17.5	472.4	49.1
Depreciation							
Opening balance at 1 April	(3.7)	(6.9)	-	-	-	(10.6)	(1.3)
Charge for the year	(6.5)	(3.7)	-	-	-	(10.2)	(1.6)
Reverse accumulated depreciation	8.8	1.0	-	-	-	9.8	1.5
Closing balance at 31 March	(1.4)	(9.6)	-	-	-	(11.0)	(1.4)
Closing net book value at 31 March	396.4	40.5	1.6	5.4	17.5	461.4	47.7
Opening net book value at 1 April	385.7	41.1	1.6	4.2	3.8	436.4	46.2

Notes supporting the balance sheet

Infrastructure assets

In accordance with the temporary relief offered by the update to the CIPFA code on infrastructure assets, the PPE note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements. The council has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The council has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

Infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network. The useful lives of the individual elements of the highways network are included in the table below.

Element of infrastructure assets	Useful life
Carriageways	20 years
Footways and cycleways	20 years
Street Furniture	30 years (Bus shelters 25 years)
Street Lighting	40 years
Structures	80 years
Traffic Management	15 years
Flood alleviation scheme	50 years

At 31 March 2026	£m
Infrastructure assets opening net book value at 1 April	261.1
Additions	47.2
Depreciation charge for the year	(25.9)
Infrastructure assets closing net book value at 31 March	282.4
Net book value of PPE excluding infrastructure assets	461.4
Total net book value of PPE on the balance sheet at 31 March	743.8

Notes supporting the balance sheet

At 31 March 2025	Land and buildings £m	Vehicles, plant, furniture and equipment £m	Community assets £m	Surplus assets £m	Assets under construction £m	Total property, plant and equipment £m	PFI assets included in PPE £m
Cost or valuation							
Opening balance at 1 April	395.6	40.2	1.6	4.3	2.2	443.9	41.4
Adjustment due to application of IFRS 16	13.6	(0.2)	-	-	-	13.4	9.5
Adjusted opening balance at 1 April	409.2	40.0	1.6	4.3	2.2	457.3	50.9
Additions	10.1	8.3	-	0.9	1.6	20.9	0.8
Disposals	(30.1)	-	-	-	-	(30.1)	-
Revaluation increases/(decreases) recognised in the revaluation reserve	7.8	0.4	-	(0.1)	-	8.1	(0.7)
Revaluation increases/(decreases) recognised in the surplus/deficit on provision of services	(3.4)	0.2	-	(0.9)	-	(4.1)	(2.4)
Reverse accumulated depreciation	(4.2)	(0.9)	-	-	-	(5.1)	(1.1)
Closing balance at 31 March	389.4	48.0	1.6	4.2	3.8	447.0	47.5
Depreciation							
Opening balance at 1 April	(1.1)	(5.4)	-	-	-	(6.5)	(0.7)
Charge for the year	(6.9)	(2.5)	-	-	-	(9.4)	(1.7)
Reverse accumulated depreciation	3.7	1.0	-	-	-	4.7	1.1
Disposals	0.6	-	-	-	-	0.6	-
Closing balance at 31 March	(3.7)	(6.9)	-	-	-	(10.6)	(1.3)
Closing net book value at 31 March	385.7	41.1	1.6	4.2	3.8	436.4	46.2
Opening net book value at 1 April	394.5	34.8	1.6	4.3	2.2	437.4	40.7

Notes supporting the balance sheet

At 31 March 2025	£m
Infrastructure assets opening net book value at 1 April	248.4
Additions	36.9
Depreciation charge for the year	(24.2)
Infrastructure assets closing net book value at 31 March	261.1
Net book value of PPE excluding infrastructure assets	436.4
Total net book value of PPE on the balance sheet at 31 March	697.5

Notes supporting the balance sheet

19.2 Revaluations

The carrying amount of assets on the rolling programme held at 31 March 2026 total £479.3 million. The effective date of the revaluations are as follows:

Valued as at	Carrying value of revalued assets £m	Carrying value of assets where indices have been applied	Total carrying value of assets included in the rolling programme
31 March 2026	133.5	-	133.5
31 March 2025	11.8	188.5	200.3
31 March 2024	15.8	93.9	109.7
31 March 2023	2.9	32.7	35.6
31 March 2022	-	0.2	0.2
Total	164.0	315.3	479.3

The following indices have been applied at 31 March 2026:

Classification	Asset categories	Average change	Valuation change £m
Industrial	Bus stations, Depots, Industrial estates,	5.17%	0.3
Office	Offices, Surplus libraries, Surplus schools	(1.00%)	(0.2)
Residential	Housing	1.35%	-
Residential land (Brownfield)		(2.95%)	(1.2)
Specialised properties	Commercial buildings, Crematorium, Day centres, Leisure centres, Libraries, Schools, Theatre, Traveller sites	2.24%	4.7
Machinery & Equipment	Waste facility	1.02%	0.3
Agricultural	Farms, Smallholdings	0.00%	-
Amenity land	Amenity land, Wetlands, Waste sites	0.00%	-
			3.9

Notes supporting the balance sheet

19.3 Revaluation reserve

31 March 2025 £m	Revaluation reserve	31 March 2026 £m
(177.9)	Balance at 1 April	(175.0)
(12.3)	Revaluations upwards	(9.1)
4.1	Revaluations downwards	2.0
0.3	Depreciation of revaluations	0.4
10.8	Disposal of revaluations	1.7
(175.0)	Balance at 31 March	(180.0)

19.4 Capital commitments

At 31 March 2026 the council had significant capital commitments totalling £20.7 million (31 March 2025: £5.4 million).

- Construction works at Hampton Dene primary school £1.1 million
- Construction works at Holme Lacy Road £2.5 million
- Construction works at Ross Enterprise Park £2.5 million
- Construction works at a new primary school at Peterchurch £5.2 million; and
- Construction works at The Transport Hub £6.2 million
- Surface dressing works £2.2 million
- Waste vehicles £1.0 million

19.5 School assets

Where a school is under the council's control (i.e. under the responsibility of the council's Section 151 Officer) its income, expenditure, current assets, liabilities and reserves are consolidated into the council's accounts and included within the figures disclosed in the statement of accounts. Any reserves attributable to the school are earmarked and disclosed separately. If a school transfers to academy status it is no longer under the control of the council and therefore its income, expenditure, assets, liabilities and reserves are no longer consolidated into the council's accounts.

In respect of any property, plant and equipment associated with schools, the council has determined that community schools, voluntary aided and voluntary controlled schools are included in the balance sheet. Voluntary aided schools' long term assets are owned by the school trustees however these assets have been recognised due to the probability that the future economic benefits associated with the asset will flow to the council and the cost of the asset can be measured reliably in accordance with IAS16. The fair value of schools is included using a depreciated replacement cost valuation method which comprises the market value of the land in its existing use plus the current replacement cost of the buildings less an allowance for physical deterioration.

Notes supporting the balance sheet

19.6 Capital adjustment account

31 March 2025 £m	Capital adjustment account	31 March 2026 £m
(300.9)	Balance at 1 April	(288.8)
	Capital financing:	
(6.9)	Capital receipts	(8.6)
(31.6)	Capital grants and contributions	(45.2)
(0.6)	Revenue contributions to capital expenditure	(0.9)
(12.8)	Minimum revenue provision	(15.2)
(51.9)	Total capital financing	(69.9)
6.4	Downward revaluations charged to comprehensive income and expenditure statement	(5.3)
33.7	Depreciation charged to comprehensive income and expenditure statement	36.4
1.6	Revenue expenditure funded from capital under statute	1.1
20.7	Disposal of non-current assets	1.8
1.6	Other adjustments	1.0
(288.8)	Balance at 31 March	(323.7)

Notes supporting the balance sheet

20. Investment property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. Rentals earned are recognised as income in the comprehensive income and expenditure statement on an accruals basis. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.

31 March 2025 £m	Investment property	31 March 2026 £m
	Cost or valuation	
52.6	Opening balance at 1 April	48.5
0.2	Additions	0.2
(1.4)	Disposals	(1.1)
(2.9)	Net gains/losses from fair value adjustments	3.9
48.5	Closing balance at 31 March	51.5

Investment property value is measured at fair value in compliance with IFRS 13. A definition of fair value is the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction at the measurement date under current market conditions. Gains and losses on fair value adjustments are included in the financing and investment income and expenditure line in the comprehensive income and expenditure statement. Gains or losses on disposal of an investment property are treated in the same way. Gains or losses recognised in the comprehensive income and expenditure statement are not proper charges to the general fund and are reversed out through the movement in reserves statement. For all investment properties where a fair value review is conducted, fair values are based on multiplying an estimated net income by an appropriate investment yield or having regard to the capital value of similar assets. The net income figure is based on market rent.

Fair value measurement using other significant observable inputs Level 2	£m
Investment properties at 31 March 26	51.5
Investment properties at 31 March 25	48.5

Notes supporting the balance sheet

21. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including those acquired under finance and PFI contracts) together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the capital financing requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

2024/25 £m	Capital expenditure and capital financing	2025/26 £m
303.1	Opening capital financing requirement	320.6
	Capital investment	
57.3	Property, plant and equipment	74.1
0.2	Intangible assets	0.7
0.2	Investment properties	0.2
15.8	Revenue expenditure funded from capital under statute	10.4
13.8	Assets acquired under PFI and lease contracts	2.4
(4.8)	Long term debtors (including loans and PFI prepayments)	-
	Sources of finance	
(4.9)	Capital receipts	(7.4)
(1.4)	Loan fund principal	(0.6)
(45.8)	Government grants and other contributions	(54.5)
	Sums set aside from revenue	
(0.1)	Direct revenue contributions	(0.4)
(12.8)	Minimum revenue provision	(15.2)
320.6	Closing capital financing requirement	330.3
	Explanation of movements in year	
23.3	Increase in underlying need to borrow	23.7
(5.4)	Long term debtors	(0.6)
13.8	Assets acquired under PFI and lease contracts	2.4
(1.4)	Repayment of long term debtors	(0.6)
(12.8)	Minimum revenue provision	(15.2)
17.5	Adjusted to services	9.7

Notes supporting the balance sheet

Minimum Revenue Provision (MRP)

Minimum Revenue Provision (MRP) is a charge to the general fund with a matching entry in the capital adjustment account. It represents an annual contribution from revenue towards the provision for the reduction in our overall borrowing requirement. MRP is charged over a period that is broadly commensurate with the period over which the council receives benefit from the asset.

The minimum revenue provision (MRP) is calculated as follows:-

- MRP on supported borrowing is written down on an annuity basis with an annuity rate of 4%
- MRP on unsupported borrowing is written down on an annuity basis with an annuity rate of 4%
- MRP on assets acquired through Right of Use asset leases and Private Finance Initiative (PFI) will be equal to the cash payments that reduce the outstanding liability each year

22. Short term debtors

31 March 2025 £m	Short term debtors	31 March 2026 £m
18.6	Trade receivables	20.9
2.0	Prepayments	2.6
0.9	Non-domestic rates	0.7
6.4	Council Tax	6.5
8.0	VAT	8.5
7.5	Central government	2.4
11.3	Other receivables	9.6
54.7	Total	51.2

Other receivables includes capital debtors, sundry revenue debtors and housing benefit debtors.

Notes supporting the balance sheet

23. Cash and cash equivalents

Cash is represented by cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are deemed to be 'on-call' investments, where investments can be recalled immediately.

31 March 2025 £m	Cash and cash equivalents	31 March 2026 £m
6.9	Cash held by the council	4.7
31.7	Short term deposits	40.6
38.6	Total	45.3
(3.3)	Bank current accounts	(3.1)
35.3	Total	42.2

24.1 Short term creditors

31 March 2025 £m	Short term creditors	31 March 2026 £m
(7.1)	Trade payables	(9.0)
(2.8)	Receipts in advance	(2.8)
(0.8)	Employee leave accrual	(0.6)
(2.5)	Council Tax	(2.7)
(6.3)	Non-domestic rates	(5.0)
(7.8)	Goods received not invoiced accrual	(6.8)
(4.6)	Payroll	(5.2)
(24.9)	Other payables	(26.7)
(56.8)	Total	(58.8)

Other payables includes capital creditors, sundry revenue creditors and deposits.

Notes supporting the balance sheet

24.2 Short term grants receipts in advance

31 March 2025 £m	Short term grants receipts in advance	31 March 2026 £m
(5.4)	Central government bodies	(4.4)
(0.7)	Other local authorities	(0.5)
(0.6)	All other bodies	(1.0)
(6.7)	Total	(5.9)

25. Capital grants receipts in advance

31 March 2025 £m	Capital grants receipts in advance	31 March 2026 £m
(1.4)	Central government bodies	(1.3)
(13.5)	Other grants and contributions	(14.4)
(14.9)	Total	(15.7)

Notes supporting the balance sheet

26. Private finance initiatives (PFI)

Private Finance Initiative (PFI) contracts are agreements to receive services where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the property, plant and equipment used under the contracts on its balance sheet. The original recognition of these property, plant and equipment at their fair value is balanced by the recognition of a liability for amounts due to the PFI provider. Property, plant and equipment recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

The amounts payable to the PFI contractors each year are analysed into four elements:

- Fair value of the services received during the year – debited to the relevant service in the comprehensive income and expenditure statement
- Finance cost – a percentage interest charge on the outstanding balance sheet liability, debited to interest payable and similar charges in the comprehensive income and expenditure statement under financing, investment income and expenditure
- Payment towards liability – applied to write down the balance sheet liability, current and long term, towards the PFI operator
- Lifecycle replacement costs – the annual payment implicit in the contract is funded and treated as a prepayment on the balance sheet and recognised as property, plant and equipment when the contractor incurs the expenditure

Under IFRS 16, the opening finance lease liability is remeasured at the net present value of the future rental payments where an inflationary increase has been applied to the unitary payments.

The council has two formal PFIs: Whitecross School and Waste disposal (in partnership with Worcestershire County Council) and one other contract identified as falling under IFRIC 12, the Shaw Healthcare contract.

Mercia Waste Management Limited – Waste management PFI contract

In 1998 Herefordshire Council, in partnership with Worcestershire County Council, entered into a 25 year contract with Mercia Waste Management Limited for the provision of an integrated waste management system using the Private Finance Initiative. Under the contract the authorities are required to ensure that all waste for disposal is delivered to the contractor, who will take responsibility for recycling or recovering energy from the waste stream. In total the estimated cost over the life of the contract is approximately £500 million of which approximately 25% relates to Herefordshire Council. The original life of the contract was 25 years with the option to extend this by 5 years, this extension was opted in January 2024.

A variation to the contract was signed in May 2014 to design, build, finance and operate an Energy from Waste Plant. Construction was completed in 2017 with a funding requirement of £195 million and an uplift to the annual unitary charge for both councils of £2.7 million. Both councils will be providing circa 82% of the project finance requirement from their own planned borrowing from the Public Works Loan Board with the remaining 18% being provided by the equity shareholders of Mercia Waste Management Limited. The loan is shown under long term debtors on the balance sheet and the effective interest rate is shown under financial investments on the comprehensive income and expenditure statement.

Notes supporting the balance sheet

Stepnell Limited – School PFI contract

The Whitecross School PFI project has delivered a fully equipped 900 place secondary school with full facilities management services. The contract with Stepnell Limited has an overall value of £74 million and lasts for 25 years. During the 2012/13 financial year the school transferred to academy status but the obligations under the PFI contract remain with the council.

Shaw Homes

The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependent on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments in respect of this contract during the financial year were £5.7 million (£5.4 million in 2024/25).

26.1. PFI liabilities

The payments to the contractors compensate them for the fair value of the services they provide, capital expenditure incurred and interest payable. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

31 March 2025 Total £m	PFI liabilities	31 March 2026 Shaw Healthcare £m	31 March 2026 Whitecross school £m	31 March 2026 Waste disposal £m	31 March 2026 Total £m
(37.8)	Balance outstanding at 1 April	(14.1)	(7.4)	(23.4)	(44.9)
(10.3)	Remeasurement of opening liability under IFRS 16	(1.2)	(0.1)	(1.1)	(2.4)
(48.1)	Adjusted opening balance at 1 April	(15.3)	(7.5)	(24.5)	(47.3)
3.2	Payments during the year	1.3	1.0	1.5	3.8
(44.9)	Balance outstanding at 31 March	(14.0)	(6.5)	(23.0)	(43.5)

Notes supporting the balance sheet

26.2. PFI payments

The table below shows an estimate of the payments to be made under the PFI and similar contracts.

PFI payments	Service charges £m	Lifecycle costs £m	Finance liability £m	Interest £m	Total £m
Within 1 year	13.5	0.5	3.8	2.5	20.3
Within 2 to 5 years	35.2	1.9	30.5	5.7	73.3
Within 6 to 10 years	13.1	0.6	6.7	0.8	21.2
Balance outstanding at 31 March	61.8	3.0	41.0	9.0	114.8

Notes supporting the balance sheet

27. Leases

27.1 The council as a lessee

At the inception of a contract, the arrangement is assessed as to whether it contains a lease. It contains a lease if it conveys the right to control the use of an identified asset for a period of time. If the contract is assessed to contain a lease, then the right of use asset is capitalised on the balance sheet, with a corresponding lease liability. The payment of the lease is split between an interest expense in the comprehensive income and expenditure statement and a write down of the lease liability in the balance sheet.

The council has applied IFRS 16 Leases from 1 April 2024 and this accounting policy does not materially impact the financial statements.

27.2 The council as a lessor

Leases are classified as either finance leases or operating leases based on the extent to which risks and rewards of ownership of the asset lie with the lessor or the lessee.

Operating leases

For operating leases, the asset is capitalised on the balance sheet and measured according to the accounting policy for its category of property, plant and equipment. Lease income is recognised in the comprehensive income and expenditure statement on a straight-line basis over the lease term.

There are no individually material leases.

31 March 2025 £m	Operating lease receipts	31 March 2026 £m
(3.8)	Not later than 1 year	(3.7)
(10.8)	Between 1 and 5 years	(9.8)
(28.8)	Over 5 years	(28.2)
(43.4)	Total due in future years undiscounted	(41.7)

Notes supporting the movement in reserves statement

28. Adjustments between accounting basis and funding basis under regulations

2025/26	General fund £m	Earmarked reserves £m	Capital receipts reserve £m	Capital grants unapplied £m	Movement in unusable reserves £m
Depreciation of non-current assets	(36.4)	-	-	-	36.4
Capital financed by capital receipts	(0.6)	-	8.6	-	(8.0)
Statutory provision for the repayment of debt (MRP)	15.2	-	-	-	(15.2)
DSG reserve	(16.3)	-	-	-	16.3
Capital grants and contributions credited to the comprehensive income and expenditure statement not applied to capital financing	8.6	-	-	(8.6)	-
Capital grants and contributions applied to capital financing	29.6	-	-	15.6	(45.2)
Other individual non material adjustments	8.8	-	(3.0)	-	(5.8)
Total adjustments between accounting basis and funding basis under regulations	8.9	-	5.6	7.0	(21.5)

2024/25	General fund £m	Earmarked reserves £m	Capital receipts reserve £m	Capital grants unapplied £m	Movement in unusable reserves £m
Depreciation of non-current assets	(33.7)	-	-	-	33.7
Capital financed by capital receipts	(0.6)	-	6.9	-	(6.3)
Net book value of assets sold	(31.5)	-	-	-	31.5
Statutory provision for the repayment of debt (MRP)	12.8	-	-	-	(12.8)
DSG reserve	(13.9)	-	-	-	13.9
Capital grants and contributions credited to the comprehensive income and expenditure statement not applied to capital financing	26.9	-	-	(26.9)	-
Capital grants and contributions applied to capital financing	16.7	-	-	14.9	(31.6)
Other individual non material adjustments	(0.8)	-	(3.5)	-	4.3
Total adjustments between accounting basis and funding basis under regulations	(24.1)	-	3.4	(12.0)	32.7

Notes supporting the movement in reserves statement

29. Movement in usable reserves

31 March 2026	Purpose of reserve	Note	1 April 2025 £m	Transfers out £m	Transfers in £m	31 March 2026 £m
General fund	Revenue resources available to meet future commitments		(10.1)	-	-	(10.1)
Earmarked reserves	Set aside from the general fund for future expenditure to support specific corporate priorities	31	(80.7)	32.0	(22.2)	(70.9)
Capital receipts reserve	Capital receipts available to meet future capital expenditure		(34.8)	8.6	(3.0)	(29.2)
Capital grants unapplied	Capital grants available to meet future capital expenditure		(42.8)	15.6	(8.6)	(35.8)
Total			(168.4)	56.2	(33.8)	(146.0)

31 March 2025	Purpose of reserve	Note	1 April 2024 £m	Transfers out £m	Transfers in £m	31 March 2025 £m
General fund	Revenue resources available to meet future commitments		(9.6)	-	(0.5)	(10.1)
Earmarked reserves	Set aside from the general fund for future expenditure to support specific corporate priorities	31	(73.2)	31.8	(39.3)	(80.7)
Capital receipts reserve	Capital receipts available to meet future capital expenditure		(38.2)	6.9	(3.5)	(34.8)
Capital grants unapplied	Capital grants available to meet future capital expenditure		(30.8)	14.9	(26.9)	(42.8)
Total			(151.8)	53.6	(70.2)	(168.4)

Notes supporting the movement in reserves statement

30. Movement in unusable reserves

31 March 2026	Purpose of reserve	Note	1 April 2025 £m	Transfers out £m	Transfers in £m	31 March 2026 £m
Short term absences account	Balances relating to accumulated holiday due but not taken in year		0.8	(0.8)	0.6	0.6
Capital adjustment account	Timing differences on capital financing and consumption	19.6	(288.8)	35.0	(69.9)	(323.7)
Collection fund adjustment account	Differences in accounting treatment for council tax and business rates between IFRS and statutory arrangements		(6.9)	(9.2)	9.8	(6.3)
Financial instruments adjustment account	Valuation gains and losses on financial instruments carried at fair value		0.4	-	-	0.4
Pensions reserve	Movement in measurement of the net defined pension liability	T1.10	8.0	(14.5)	10.3	3.8
Revaluation reserve	Unrealised gains/losses arising from revaluations of assets	19.3	(175.0)	4.1	(9.1)	(180.0)
DSG adjustment account	Accumulated deficit on the dedicated schools grant	14	20.0	-	16.3	36.3
Total			(441.5)	14.6	(42.0)	(468.9)

31 March 2025	Purpose of reserve	Note	1 April 2024 £m	Transfers out £m	Transfers in £m	31 March 2025 £m
Short term absences account	Balances relating to accumulated holiday due but not taken in year		3.7	(3.7)	0.8	0.8
Capital adjustment account	Timing differences on capital financing and consumption	19.6	(300.9)	64.0	(51.9)	(288.8)
Collection fund adjustment account	Differences in accounting treatment for council tax and business rates between IFRS and statutory arrangements		(6.0)	(8.9)	8.0	(6.9)
Financial instruments adjustment account	Valuation gains and losses on financial instruments carried at fair value		0.4	-	-	0.4
Pensions reserve	Movement in measurement of the net defined pension liability	T1.10	9.7	(117.5)	115.8	8.0
Revaluation reserve	Unrealised gains/losses arising from revaluations of assets	19.3	(177.9)	15.2	(12.3)	(175.0)
DSG adjustment account	Accumulated deficit on the dedicated schools grant	14	6.1	-	13.9	20.0
Total			(464.9)	(50.9)	74.3	(441.5)

Notes supporting the movement in reserves statement

31. Movement in earmarked reserves

31 March 2026	Purpose of reserve	1 April 2025 £m	Transfers out £m	Transfers in £m	31 March 2026 £m
Business rates reserve	To smooth the impact of changes in business rates retention, collection and funding	(13.3)	3.0	(2.3)	(12.6)
Schools' balances	Balances held for individual maintained schools	(11.7)	12.4	(9.9)	(9.2)
Waste reserve	To support increased future costs on waste disposal and collection services	(7.1)	3.3	(2.0)	(5.8)
Budget resilience reserve	To support increased future costs in social care budgets	(7.0)	1.8	-	(5.2)
Enterprise zone business rates reserve	Business rates collected from Hereford Enterprise Zone	(3.0)	1.5	(2.0)	(3.5)
Fastershire reserve	Income collected through contracting arrangements	(2.7)	-	(0.6)	(3.3)
PFI school reserve	Income collected through contracting arrangements	(1.8)	-	(0.2)	(2.0)
Financial resilience reserve	Amounts set aside to support financial risk	(2.3)	-	(0.2)	(2.5)
Unused grants carried forward	Unspent grant monies earmarked for future expenditure	(18.0)	5.0	(1.7)	(14.7)
Other individually non material reserves		(13.8)	5.0	(3.3)	(12.1)
Total		(80.7)	32.0	(22.2)	(70.9)

Notes supporting the movement in reserves statement

31 March 2025	Purpose of reserve	1 April 2024 £m	Transfers out £m	Transfers in £m	31 March 2025 £m
Business rates reserve	To smooth the impact of changes in business rates retention, collection and funding	(19.7)	11.0	(4.6)	(13.3)
Schools' balances	Balances held for individual maintained schools	(9.9)	-	(1.8)	(11.7)
Waste reserve	To support increased future costs on waste disposal and collection services	(6.8)	1.6	(1.9)	(7.1)
Budget resilience reserve	To support increased future costs in social care budgets	-	4.0	(11.0)	(7.0)
Financial resilience reserve	Amounts set aside to support financial risk	(3.1)	1.3	(0.5)	(2.3)
Unused grants carried forward	Unspent grant monies earmarked for future expenditure	(17.3)	4.7	(5.4)	(18.0)
Other individually non material reserves		(16.4)	9.2	(14.1)	(21.3)
Total		(73.2)	31.8	(39.3)	(80.7)

Notes supporting the cash flow statement

32. Cash flows from operating activities

32.1 Adjustments for non-cash movements

2024/25 £m	Adjustments for non-cash movements	2025/26 £m
11.7	Movement in debtors	(1.9)
(1.8)	Movement in creditors	1.0
-	Movement in inventories	0.3
(40.1)	Depreciation, amortisation and impairment of non-current assets	(31.1)
(31.5)	Carrying amount of non-current assets sold	(3.6)
0.1	Net charges for retirement benefits	4.8
0.2	Movement in provisions	(0.9)
(61.4)	Total adjustment for non-cash movements	(31.4)

32.2 Adjustments for items included in the surplus/deficit that are investing and financing activities

2024/25 £m	Adjustments for investing and financing activities	2025/26 £m
2.1	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2.4
43.6	Any other items for which the cash effects are investing or financing cash flows	38.2
45.7	Total adjustment for investing and financing activities	40.6

Any other items for which the cash effects are investing or financing cash flows includes receipt of capital grants.

Notes supporting the cash flow statement

33. Cash flows from investing activities

2024/25 £m	Cash flows from investing activities	2025/26 £m
56.7	Purchase of property, plant and equipment, investment property and intangible assets	72.6
1.1	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(3.8)
45.0	Purchase of short term investments	72.6
(60.0)	Proceeds from short term investments	(66.0)
(43.2)	Other receipts from investing activities	(40.4)
2.2	Other payments for investing activities	1.1
1.8	Total cash flows from investing activities	36.1

Other receipts from investing activities includes receipts of capital grants and receipts from long term loans.

34.1 Cash flows from financing activities

2024/25 £m	Cash flows from financing activities	2025/26 £m
3.6	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	4.2
(25.0)	Cash receipts of short term and long term borrowing	(65.0)
7.0	Repayments of short and long term borrowing	7.3
-	Other payments for financing activities	0.4
(14.4)	Total cash flows from financing activities	(53.1)

Notes supporting the cash flow statement

34.2 Reconciliation of liabilities arising from financing activities

Financing activities	1 April 2025 £m	Financing cash flows £m	Remeasurement on implementation of IFRS 16 £m	Other non- financing cash flows £m	31 March 2026 £m
Long term borrowing	(130.5)	(47.3)	-	5.5	(172.3)
Short term borrowing	(8.3)	(10.0)	-	(6.0)	(24.3)
Leases	(2.9)	0.4	-	-	(2.5)
PFI liabilities	(44.9)	3.8	(2.4)	-	(43.5)
Total liabilities from financing activities	(186.6)	(53.1)	(2.4)	(0.5)	(242.6)
Note	T2.3	34.1	26.1		T2.3

Financing activities	1 April 2024 £m	Financing cash flows £m	Remeasurement on implementation of IFRS 16 £m	Other non- financing cash flows £m	31 March 2025 £m
Long term borrowing	(113.0)	(18.0)	-	0.5	(130.5)
Short term borrowing	(8.0)	-	-	(0.3)	(8.3)
Leases	-	0.4	(3.3)	-	(2.9)
PFI liabilities	(37.8)	3.2	(10.3)	-	(44.9)
Total liabilities from financing activities	(158.8)	(14.4)	(13.6)	0.2	(186.6)
Note	T2.3	34.1	26.1		T2.3

Technical annex

T1. Pension schemes

Employees of the council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by the Department for Education
- The NHS pension scheme (for Public Health transferred staff)
- The Local Government Pension Scheme administered by Worcestershire County Council (LGPS)

Pension schemes are classed as either defined contribution or defined benefit plans. The above schemes provide defined benefits to members, built up during the time that employees work for the council. The arrangements for the Teachers' and NHS schemes mean that the liabilities for these benefits cannot be identified to the council. These schemes are therefore accounted for as if they were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the revenue account is charged with the employer's contributions payable to the schemes in the year.

The Local Government Pension Scheme is accounted for as a defined benefit scheme. The liabilities are included in the balance sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees. Liabilities are discounted to their value at current prices using a discount rate (based on market yields and other factors). Assets are included in the balance sheet at their fair value determined through market or bid prices or using professional valuations. The change in the net pension's asset/liability is analysed into six components:

- Current service cost: The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the comprehensive income and expenditure statement
- Past service cost: The increase in liabilities arising from a scheme amendment or curtailment whose effect relates to service earned in earlier years is debited to the net cost of services in the comprehensive income and expenditure statement
- Net Interest on the defined benefit asset/liability: The change during the period that arises from the passage of time is charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement
- Return on plan assets: Charged to the pensions reserve as other comprehensive income and expenditure but excludes amounts included in net interest on defined benefit asset/liability
- Remeasurement of the net defined benefit asset/liability: Changes in the net pensions asset/liability that arise because events have not coincided with assumptions previously made by the actuaries is included in other comprehensive income and expenditure
- Contributions paid to the pension fund: Cash paid as employer's contributions to the pension fund

Technical annex

T1.1. Pension schemes accounted for as defined contribution schemes

Teachers employed by the council are members of the Teachers' Pension Scheme, which is a defined benefit scheme administered by the Department for Education. Although the scheme is unfunded, a notional fund is used as a basis for calculating the employers' contribution rate. It is not possible for the council to identify its share of the underlying liabilities in the scheme attributable to its own employees, and therefore for the purposes of the statement of accounts it is accounted for on the same basis as a defined contribution scheme, that is, actual costs are included in the revenue accounts, with no assets and liabilities in the balance sheet.

In 2025/26 the council paid employer contributions of £9.5 million (2024/25 £7.8 million) in respect of teachers' pension costs. The liability to former Hereford and Worcester teachers' unfunded added years' benefits of £0.4 million is included in the pension fund liability in the balance sheet in 2025/26 (£0.4 million in 2024/25).

T1.2. Defined benefit pension schemes

Employees are eligible to join the Local Government Pension Scheme (LGPS) administered by Worcestershire County Council. This is a funded scheme, which means that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. Although the benefits will not actually be payable until employees retire, the council has a commitment to make the payments and this needs to be disclosed at the time the employees earn their future entitlement. The pension scheme is operated under the regulatory framework for Local Government Pension Schemes.

Under IAS 19 the cost of retirement benefits is included in the cost of services when it is earned by employees, rather than when it is paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of the retirement benefits is reversed out to the pensions reserve via the movement in reserves statement.

The council is aware of the Virgin Media Limited v NTL Pension Trustees II Limited case relating to Section 37 confirmations and is monitoring the potential impact on the Worcestershire Pension Fund and the council financial statements.

Technical annex

T1.3. Transactions relating to pension schemes

2024/25 £m	Transactions relating to pension schemes	2025/26 £m
	Comprehensive income and expenditure statement	
	Cost of services	
11.4	Current service cost	8.5
0.2	(Gain)/loss from settlements and curtailments	0.1
1.5	Past service cost	-
	Financing and investment income and expenditure	
0.5	Net interest expense	0.3
0.3	Administration expenses	0.3
13.9	Total post-employment benefit charged to the surplus/deficit on the provision of services	9.2
	Other comprehensive income and expenditure	
(5.9)	Remeasurement arising on changes in experience	24.6
(87.3)	Remeasurement arising on changes in financial assumptions	(15.2)
(1.0)	Remeasurement arising on changes in demographic assumptions	14.4
17.6	Return on plan assets	(53.3)
75.5	Impact of pension net asset ceiling	30.6
(1.1)	Total post-employment benefit charged to other comprehensive income and expenditure	1.1
	Movement in reserves statement	
(13.9)	Reversal of net charges made to the surplus/deficit on the provision of services	(9.2)
13.8	Amount charged to the general fund balance for employer's contribution payable in the year	14.0

Technical annex

T1.4. Pension assets and liabilities recognised in the balance sheet

31 March 2025 £m	Pension assets and liabilities	Note	31 March 2026 £m
495.6	Present value of the defined benefit obligation	T1.5	539.5
(590.5)	Fair value of plan assets	T1.6	(674.6)
102.0	Effect of net asset ceiling	T1.6	138.5
7.1	Net liability arising from defined benefit obligation – LGPS		3.4
0.4	Unfunded teachers pension liability		0.4
7.5	Total net pension liability		3.8

As at 31 March 2026, the fair value of plan assets were measured at greater than the present value of the defined benefit obligation, resulting in a net pension asset. The accounting standard interpretation IFRIC 14 restricts the amount of the net pension asset that can be recognised on the balance sheet to the estimated economic benefit of the net asset arising from a reduction in future contributions, amending for any additional liabilities arising from past service contributions. This asset ceiling calculation has resulted in a credit to the balance sheet value of £138.5 million (2024/25 £102.0 million).

T1.5. Reconciliation of the present value of scheme liabilities (LGPS)

31 March 2025 £m	Scheme liabilities	31 March 2026 £m
573.1	Opening balance at 1 April	495.6
11.4	Current service cost	8.5
(4.3)	Settlements and curtailments	(0.2)
1.5	Past service cost	-
27.3	Interest cost	28.5
0.3	Administration expenses	0.3
4.4	Contribution by scheme participants	4.6
(94.2)	Remeasurement arising from changes in assumptions	26.3
(23.9)	Benefits/transfers paid	(24.1)
495.6	Closing balance at 31 March	539.5

The duration of the employer's funded obligations is 15 years.

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T1.6. Reconciliation of the fair value of scheme assets and the asset ceiling (LGPS)

31 March 2025 £m	Scheme assets	31 March 2026 £m
590.2	Opening balance at 1 April	590.5
28.1	Interest income	34.1
(17.6)	Return on plan assets	55.8
(4.5)	Settlements and curtailments	(0.3)
13.8	Contribution from employer	14.0
4.4	Contributions from employees	4.6
(23.9)	Benefits/transfers paid	(24.1)
590.5	Closing balance at 31 March	674.6

31 March 2025 £m	Asset ceiling	31 March 2026 £m
(25.3)	Opening balance at 1 April	(102.0)
(1.2)	Interest on the impact of the net asset ceiling	(5.9)
(75.5)	Impact of pension net asset ceiling	(30.6)
(102.0)	Closing balance at 31 March	(138.5)

The actual return on scheme assets in the year was £99.8 million, 14.8% of the period end assets (2024/25 £10.6 million, 1.8%).

Technical annex

T1.7. Local government pension scheme assets

31 March 2025 £m	Scheme assets	Quoted Y/N	31 March 2026 £m
	Cash		
9.2	Cash instruments	N	10.6
	Equity instruments		
60.8	Other	Y	69.4
1.6	Private equity	N	-
	Debt securities		
12.8	UK government	Y	14.6
	Private equity		
-	All	N	1.8
	Property		
33.1	UK property debt	N	37.8
14.4	Overseas property debt	N	16.5
	Investment funds and unit trusts		
321.5	Equities	Y	367.3
18.8	Bonds	Y	21.5
106.3	Infrastructure	N	121.4
12.0	Other	N	13.7
590.5	Closing fair value of scheme assets		674.6

Technical annex

T1.8. Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been estimated by Hymans Robertson LLP, an independent firm of actuaries based on the latest full valuation of the scheme as at 31st March 2025. The principal assumptions used by the actuary have been:

31 March 2025	Assumptions	31 March 2026
	Mortality assumptions	
	Longevity at 65 for current pensioners (in years)	
21.2	Men	21.9
23.6	Women	24.6
	Longevity at 65 for future pensioners (in years)	
22.5	Men	22.7
25.4	Women	26.0
	Financial assumptions	
2.8%	Rate of CPI inflation	3.0%
4.3%	Rate of increase in salaries	4.5%
2.8%	Rate of increase in pensions	3.0%
5.8%	Rate for discounting scheme liabilities	6.2%

T1.9. Impact on the council's cash flows

Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2027 is £12.7 million.

Technical annex

T1.10. Pensions reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible.

31 March 2025 £m	Pensions reserve	31 March 2026 £m
9.7	Balance at 1 April	8.0
(1.1)	Return on plan assets	1.2
13.8	Reversal of items relating to retirement benefits debited or credited to the surplus/deficit on the provision of services in the comprehensive income and expenditure statement	9.2
(13.8)	Employer's pension contributions and direct payments to pensioners payable in the year	(14.0)
(0.6)	Employer's pension contributions – early payment adjustment	(0.6)
8.0	Balance at 31 March	3.8
7.6	Local government pension scheme	3.4
0.4	Teachers pension scheme	0.4
8.0	Balance at 31 March	3.8

Technical annex

T2. Financial instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument, such as share capital) of another entity. They are valued in line with the requirements of IFRS 13 (fair value), the recognition and measurement of financial instruments is reported in accordance with IFRS 9.

T2.1. Income, expense, gains and losses

The following amounts relating to financial instruments are included in the comprehensive income and expenditure statement.

2024/25 Financial liabilities £m	2024/25 Financial assets £m	2024/25 Total £m	Income, expense, gains and losses	2025/26 Financial liabilities £m	2025/26 Financial assets £m	2025/26 Total £m
			Interest payable and similar charges			
4.7	-	4.7	On loans	6.0	-	6.0
3.0	-	3.0	On PFI and lease liabilities	2.9	-	2.9
7.7	-	7.7	Total expenditure in surplus/deficit on the provision of services	8.9	-	8.9
			Interest receivable			
-	(1.9)	(1.9)	On loans	-	(1.8)	(1.8)
-	(2.9)	(2.9)	On investments	-	(2.4)	(2.4)
-	(4.8)	(4.8)	Total income in surplus/deficit on the provision of services	-	(4.2)	(4.2)
7.7	(4.8)	2.9	Net (gain)/loss for the year	8.9	(4.2)	4.7

Technical annex

T2.2. Financial assets

The council's business model is to hold investments to collect contractual cash flows i.e. payments of interest and principal. All of the council's financial assets are therefore classified as amortised cost. Financial assets measured at amortised cost are recognised on the balance sheet when the council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the council, this means that the amount presented in the balance sheet is the outstanding principal receivable (plus accrued interest) and interest credited is the amount receivable for the year in the loan agreement.

The council recognises expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables (debtors) held by the council. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.

31 March 2025 Per balance sheet £m	31 March 2025 Financial instruments £m	Financial assets	31 March 2026 Per balance sheet £m	31 March 2026 Financial instruments £m
32.8	32.8	Long term debtors – loans	32.7	32.7
2.8	-	Long term debtors – PFI lifecycle costs	3.0	-
35.6	32.8	Total long term debtors	35.7	32.7
10.4	10.4	Short term investments	16.6	16.6
10.4	10.4	Total short term investments	16.6	16.6
38.6	38.6	Cash and cash equivalents	45.3	45.3
38.6	38.6	Total cash and cash equivalents	45.3	45.3
42.8	42.8	Short term debtors – Sales invoices and contractual rights	31.4	31.4
20.9	-	Short term debtors – Statutory and non-contractual debts (council tax, vat)	26.8	-
2.0	-	Short term debtors – prepayments	2.6	-
(11.0)	(11.0)	Short term debtors – bad debt provisions	(9.6)	(3.1)
54.7	31.8	Total short term debtors	51.2	28.3
139.3	113.6	Total assets	148.8	122.9

Technical annex

T2.3. Financial liabilities

A financial liability is an obligation to deliver cash (or another financial asset) to another entity. Financial liabilities are recognised on the balance sheet when the council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges for interest payable are based on the carrying amount of the liability multiplied by the effective interest rate for the instrument and are charged to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The effective interest rate is the rate that discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the council has, the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest) and interest charged is the amount payable for the year in the loan agreement.

31 March 2025 Per balance sheet £m	31 March 2025 Financial instruments £m	Financial liabilities	31 March 2026 Per balance sheet £m	31 March 2026 Financial instruments £m
(3.3)	(3.3)	Cash and cash equivalents	(3.1)	(3.1)
(3.3)	(3.3)	Total cash and cash equivalents	(3.1)	(3.1)
(0.1)	(0.1)	Short term borrowing – bank loans	(0.1)	(0.1)
(8.2)	(8.2)	Short term borrowing – public works loan board	(14.0)	(14.0)
-	-	Short term borrowing – other local authorities	(10.2)	(10.2)
(8.3)	(8.3)	Total short term borrowing	(24.3)	(24.3)
(36.7)	(36.7)	Short term creditors – invoiced amounts and other contractual liabilities	(40.8)	(40.8)
(9.7)	-	Short term creditors – statutory and non-contractual liabilities (PAYE)	(7.2)	-
(9.3)	-	Short term creditors – accruals and receipts in advance	(9.0)	-
(1.1)	-	Short term creditors – funds and deposits held	(1.8)	(1.4)
(56.8)	(36.7)	Total short term creditors	(58.8)	(42.2)
(12.4)	(12.4)	Long term borrowing – bank loans	(12.4)	(12.4)
(118.1)	(118.1)	Long term borrowing – public works loan board	(159.9)	(159.9)
(130.5)	(130.5)	Total long term borrowing	(172.3)	(172.3)
(47.8)	(47.8)	Other long term liabilities – PFI and leases	(45.7)	(45.7)
(7.5)	-	Other long term liabilities – pensions liability	(3.8)	-
(55.3)	(47.8)	Total other long term liabilities	(49.5)	(45.7)
(254.2)	(226.6)	Total liabilities	(308.0)	(287.6)

Technical annex

T2.4. Fair value of assets and liabilities

Financial liabilities and financial assets are carried in the balance sheet at amortised cost, but fair value disclosures are required by the Code. Fair value is the price that would be received/paid in an orderly transaction between market participants at the measurement date. The fair value has been assessed by calculating the present value of the anticipated cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value. These have been excluded from the fair value table below
- The fair value of long term debtor loans have been calculated based on discounted contractual cash flows at the market rate for a similar instrument of the same remaining term with a counterparty of similar credit standing
- For PWLB and other loans, PWLB premature repayment rates and prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures
- The fair value of liabilities under PFI schemes have been calculated based on discounted contractual cash flows of the same remaining term

The fair value is lower than the carrying amount using premature repayment rates and new loan rates because the council's portfolio of longer-term loans are all fixed rate and the interest rates payable on these loans are generally higher than the rates prevailing at the balance sheet date. Therefore the fair value includes a discount that the council would receive if the lender agreed to early repayment of the loans.

There are three tier levels in measuring fair value, these are: -

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset or liability.

Fair values are shown in the table below and have been provided by the council's treasury management advisors, using the income approach (converting future cash flows to a single current discounted amount).

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31 March 2025 Carrying amount £m	31 March 2025 Fair value (premature repayment rate) £m	31 March 2025 Fair value (new loan rate) £m	31 March 2025 Fair value (discounted cash flow) £m	Fair value	Fair value hierar chy input level	31 March 2026 Carrying amount £m	31 March 2026 Fair value (premature repayment rate) £m	31 March 2026 Fair value (new loan rate) £m	31 March 2026 Fair value (discounted cash flow) £m
				Financial assets					
32.8	-	-	32.8	Long term debtors	2	32.7	-	-	30.3
32.8	-	-	32.8	Total financial assets		32.7	-	-	30.3
				Financial liabilities					
(126.3)	(119.0)	(109.7)	-	Public works loan board	2	(173.9)	(165.0)	(154.4)	-
(12.5)	(13.2)	(9.4)	-	Bank loans (LOBOs)	2	(12.5)	(13.5)	(9.1)	-
(47.8)	-	-	(44.2)	PFI liabilities and finance leases	2	(45.7)	-	-	(42.4)
(186.6)	(132.2)	(119.1)	(44.2)	Total financial liabilities		(232.1)	(178.5)	(163.5)	(42.4)

Technical annex

T2.5. Nature and extent of risks arising from financial instruments

The council's activities expose it to a variety of financial risks:

- Credit risk: the possibility that other parties may fail to pay amounts owing to the council
- Liquidity risk: the possibility that the council may have insufficient funds available to meet its financial commitments
- Market risk: the possibility that the council may suffer financial loss as a result of economic changes such as interest rate fluctuations

The council has adopted CIPFA's treasury management in the public services code of practice in setting out a treasury management policy and strategies to control risks to financial instruments.

Credit risk

Credit risk arises from deposits with banks and other financial institutions, as well as credit exposures to the council's customers. The impact on the financial instruments held has been considered and included within the credit risk disclosures. Investments are only made in institutions recommended by the council's treasury adviser through combined credit ratings, credit watches and credit outlooks. Typically the minimum credit ratings criteria the council use will be short term rating (Fitch or equivalents) of F1 and a long term rating of A- and with countries with a minimum sovereign credit rating of AA- (Fitch or equivalents). During 2025/26 the council continued to restrict investments to only the largest and strongest of the banks, building society, other local authorities and instant access money market funds.

Analysis of the amount outstanding on the council debtors control account at 31 March by age is shown below:

31 March 2025 £m	Credit risk	31 March 2026 £m
10.6	Less than 3 months	7.3
1.7	3 to 6 months	3.2
3.1	6 months to 1 year	5.2
6.0	More than 1 year	7.6
21.4	Total	23.3

The general impairment allowance for debtors has remained at £0.6 million.

Technical annex

Liquidity risk

The council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the money markets and the PWLB. There is no significant risk that it will be unable to raise finance to meet its commitments. Instead the risk is that the council will need to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. Therefore the strategy is to spread the maturity of the council's loans so that a significant proportion does not require repayment or refinancing at the same time. The maturity analysis of the loan debt is as follows:

31 March 2025 £m	Liquidity risk	31 March 2026 £m
(8.7)	Less than 1 year	(24.3)
(7.7)	Between 1 and 2 years	(11.9)
(11.1)	Between 2 and 5 years	(28.2)
(29.9)	Between 5 and 10 years	(52.0)
(81.4)	More than 10 years	(80.2)
(138.8)	Total	(196.6)

Technical annex

Market risk

The council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates could have a significant impact on the council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates - the interest expense charged to the surplus or deficit on the provision of services would increase
- Borrowings at fixed rates – the fair value of borrowings would fall
- Investments at variable rates - the interest received credited to the surplus or deficit on the provision of services would rise
- Investments at fixed rates – the fair value of the assets would fall

Borrowings and investments are not carried at fair value in the balance sheet and so nominal gains and losses on fixed rate financial instruments would have no impact on the surplus or deficit on the provision of services. The impact on the general fund is through changes in interest payable and receivable. The council's loans are all fixed rate which means that when the Bank Base Rate is low the interest rate paid on borrowing is relatively high compared to the rate received on investments.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and is considered at quarterly strategy meetings with the council's treasury advisors. The council sets an annual treasury management strategy which includes analysing future economic interest rate forecasts. This analysis will advise whether new borrowing taken out is fixed or variable and, where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The table below demonstrates the financial effect of a 1% increase in interest rates at 31 March 2026.

Sensitivity analysis	1% increase in interest rates £m
Increase in interest payable on borrowing	-
Increase in interest receivable on investment balances	(0.6)
Decrease in fair value of borrowing	11.1

Group financial statements and notes



Group comprehensive income and expenditure statement

The group comprehensive income and expenditure statement shows the accounting costs in year of services provided by the group. This is prepared in accordance with International Financial Reporting Standards (IFRS) rather than the amount to be funded from taxation. The taxation position is shown in the movement in reserves statement.

2024/25 Gross expenditure £m	2024/25 Gross income £m	2024/25 Net group expenditure £m	Group comprehensive income and expenditure	2025/26 Gross expenditure £m	2025/26 Gross income £m	2025/26 Net group expenditure £m
207.4	(147.2)	60.2	Children and Young People	221.3	(152.8)	68.5
143.0	(77.2)	65.8	Community Wellbeing	151.7	(80.1)	71.6
98.7	(35.4)	63.3	Economy and Environment	101.1	(37.1)	64.0
84.2	(49.3)	34.9	Corporate Services	81.4	(43.5)	37.9
533.3	(309.1)	224.2	Net cost of services	555.5	(313.5)	242.0
35.3	-	35.3	Other operating income and expenditure	7.7	-	7.7
11.4	(8.4)	3.0	Financing and investment income and expenditure	10.1	(12.2)	(2.1)
-	(246.5)	(246.5)	Taxation and non-specific grant income	-	(247.0)	(247.0)
580.0	(564.0)	16.0	(Surplus)/deficit on the provision of services	573.3	(572.7)	0.6
		(8.2)	(Surplus)/deficit on revaluation of non- current assets			(7.1)
		(1.1)	Re-measurement of the net defined benefit liability			1.2
		(9.3)	Other comprehensive (income) and expenditure			(5.9)
		6.7	Total comprehensive (income) and expenditure			(5.3)

There is a minority interest of 20% in the subsidiary. There is £0.1 million (2024/25 £nil) included in the surplus on the provision of services and in the total comprehensive income and expenditure figures that is attributable to the minority interest.

Group balance sheet

The group balance sheet shows the value of the assets and liabilities of the group, with the net assets matched by the reserves held. Reserves are categorised as usable (those the council can use to provide services), and unusable (those which cannot be used to provide services).

31 March 2025 £m	Balance sheet	31 March 2026 £m
701.6	Property, plant and equipment	747.8
48.5	Investment property	51.5
0.7	Intangible assets	1.3
4.4	Heritage assets	4.4
35.6	Long term debtors	35.7
790.8	Long term assets	840.7
10.4	Short term investments	16.6
0.3	Inventories	0.6
55.5	Short term debtors	51.1
42.0	Cash and cash equivalents	50.3
108.2	Current assets	118.6

31 March 2025 £m	Balance sheet	31 March 2026 £m
(8.3)	Short term borrowing	(24.3)
(60.8)	Short term creditors	(62.5)
(6.7)	Short term grants receipts in advance	(5.9)
(4.5)	Short term provisions	(6.0)
(3.3)	Cash and cash equivalents	(3.1)
(83.6)	Current liabilities	(101.8)
(1.4)	Long term provisions	(1.4)
(130.5)	Long term borrowing	(172.3)
(14.9)	Capital grants receipts in advance	(15.7)
(55.3)	Other long term liabilities	(49.5)
(202.1)	Total long term liabilities	(238.9)
613.3	Net assets	618.6
(171.8)	Usable reserves	(149.7)
(441.5)	Unusable reserves	(468.9)
(613.3)	Total reserves	(618.6)

There is a minority interest of 20% in the subsidiary. There is £0.7 million (2024/25 £0.7 million) included in Usable reserves that is attributable to the minority interest.

Rachael Sanders, Director of Finance and Section 151 Officer

29/09/2026

Group movement in reserves statement

The group movement in reserves statement shows the movement on the different reserves held, analysed into usable and unusable reserves. The net increase / decrease before transfers to / from earmarked reserves shows the statutory general fund balance before any discretionary transfers are undertaken.

Group movement in reserves	General fund £m	Earmarked reserves £m	Total General fund £m	Capital receipts reserve £m	Capital grants unapplied £m	Total usable reserves £m	Total unusable reserves £m	Total Council reserves £m	Council's share of reserves of subsidiary £m	Total group reserves £m
Balance at 31 March 2024	(9.6)	(73.2)	(82.8)	(38.2)	(30.8)	(151.8)	(464.9)	(616.7)	(3.3)	(620.0)
Total comprehensive income and expenditure	(2.2)	-	(2.2)	-	-	(2.2)	(9.3)	(11.5)	18.2	6.7
Adjustments between group accounts and authority accounts	18.3	-	18.3	-	-	18.3	-	18.3	(18.3)	-
Net (increase)/decrease before transfers	16.1	-	16.1	-	-	16.1	(9.3)	6.8	(0.1)	6.7
Adjustments between accounting basis and funding basis under regulations	(24.1)	-	(24.1)	3.4	(12.0)	(32.7)	32.7	-	-	-
Transfers (to)/from earmarked reserves	7.5	(7.5)	-	-	-	-	-	-	-	-
(Increase)/decrease in year	(0.5)	(7.5)	(8.0)	3.4	(12.0)	(16.6)	23.4	6.8	(0.1)	6.7
Balance at 31 March 2025	(10.1)	(80.7)	(90.8)	(34.8)	(42.8)	(168.4)	(441.5)	(609.9)	(3.4)	(613.3)
Total comprehensive income and expenditure	(17.8)	-	(17.8)	-	-	(17.8)	(5.9)	(23.7)	18.4	(5.3)
Adjustments between group accounts and authority accounts	18.7	-	18.7	-	-	18.7	-	18.7	(18.7)	-
Net (increase)/decrease before transfers	0.9	-	0.9	-	-	0.9	(5.9)	(5.0)	(0.3)	(5.3)
Adjustments between accounting basis and funding basis under regulations	8.9	-	8.9	5.6	7.0	21.5	(21.5)	-	-	-
Transfers (to)/from earmarked reserves	(9.8)	9.8	-	-	-	-	-	-	-	-
(Increase)/decrease in year	-	9.8	9.8	5.6	7.0	22.4	(27.4)	(5.0)	(0.3)	(5.3)
Balance at 31 March 2026	(10.1)	(70.9)	(81.0)	(29.2)	(35.8)	(146.0)	(468.9)	(614.9)	(3.7)	(618.6)

Group cash flow statement

The group cash flow statement shows the change in cash and cash equivalents of the group, and classifies the cash as operating, investing and financing activities. The amount of net cash arising from operating activities is a key indicator of the extent to which the operations of the group are funded by way of taxation, grant income and fees and charges.

2024/25 £m	Group cash flow	2025/26 £m
16.0	Net (surplus)/deficit on the provision of services	0.6
(62.0)	Adjust net (surplus)/deficit on the provision of services for non-cash movements	(32.7)
45.7	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	40.6
(0.3)	Net cash flows from operating activities	8.5
0.5	Net cash flows from investing activities	36.1
(14.4)	Net cash flows from financing activities	(53.1)
(14.2)	Net (increase)/decrease in cash and cash equivalents	(8.5)
24.5	Cash and cash equivalents at 1 April	38.7
38.7	Cash and cash equivalents at 31 March	47.2
14.2	Net increase/(decrease) in cash and cash equivalents	8.5

Notes supporting the group accounts

G1. Introduction

Group accounts consolidate the single entity accounts of Herefordshire Council with its subsidiary, Hoople Ltd. The group accounts comprise:

- Group comprehensive income and expenditure statement
- Group balance sheet
- Group movement in reserves statement
- Group cash flow

Disclosure notes have only been included in the group accounts where they are materially different from those of the council's single entity accounts.

G2. Basis of consolidation

Herefordshire Council owns 80% of the ordinary share capital of Hoople Ltd, a controlling share. Hoople Ltd is accounted for as a subsidiary in the group accounts and is consolidated on a line by line basis using the acquisition method.

There are no other entities included in the group accounts, because they are not considered to be material to the group.

Notes supporting the group accounts

G3. Financial performance of the subsidiary

The financial performance of Hoople Ltd is set out in the table below. These results include transactions and balances with the council, which have been eliminated in the group accounts.

Comprehensive income and expenditure statement	2024/25 £m	2025/26 £m
Turnover	(26.6)	(29.4)
(Profit) on ordinary activities before taxation	(0.1)	(0.3)
Tax on profit on ordinary activities	-	-
(Profit) for the financial year after taxation	(0.1)	(0.3)
Other comprehensive income and expenditure	-	-
Total comprehensive income and expenditure	(0.1)	(0.3)

Balance sheet	31 March 2025 £m	31 March 2026 £m
Non-current assets	4.1	4.0
Current assets	6.0	7.8
Liabilities due within one year	(6.7)	(8.1)
Liabilities due after more than one year	-	-
Net assets	3.4	3.7
Reserves	(3.4)	(3.7)

A full copy of the company's accounts can be obtained from the Directors, Hoople Ltd, Auxilium House, Legion Way, Hereford, HR1 1LN. The accounts are audited by Williamson & Croft.

Notes supporting the group accounts

G4. Group accounting policies

In preparing group accounts, the council is required to align the accounting policies of the subsidiary with those of the council and make consolidation adjustments if necessary. The accounting policies adopted by Hoople Ltd are considered to be consistent with the accounting policies adopted by the council, with the exception of those listed below:

Taxation

Tax expense, comprising income and corporation tax, includes current and deferred tax.

Current tax represents the expected tax payable or receivable on the taxable profit for the period, using tax rates enacted or substantively enacted at the reporting date. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities and their tax bases, measured using tax rates expected to apply when the differences reverse.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences, unused tax losses, or unused tax credits can be utilised. Deferred tax assets and liabilities are offset when a legally enforceable right of offset exists and the taxes relate to the same taxation authority.

Supplementary accounts:

Collection fund statement and notes supporting the collection fund statement



Collection fund statement

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection of council tax and business rates. From April 2013 the system of funding local authorities changed allowing the council to retain 49% of the county's business rates.

2024/25 Total £m	Collection fund	Note	2025/26 Council tax £m	2025/26 Business rates £m	2025/26 Total £m
	Amounts required to be credited to the collection fund				
169.1	Council tax	C2	182.3	-	182.3
49.1	Business rates income	C1	-	53.5	53.5
2.1	Transitional protection payments receivable		-	0.5	0.5
220.3	Total		182.3	54.0	236.3
	Amounts required to be debited from the collection fund				
	Precepts, demands and shares				
21.9	Central government		-	23.7	23.7
7.4	Hereford and Worcester fire authority		7.4	0.5	7.9
156.4	Herefordshire Council		143.4	23.2	166.6
5.7	Parish and town councils		6.3	-	6.3
20.0	West Mercia police		21.2	-	21.2
	Contribution towards previous year's surplus				
1.4	Central government		-	1.6	1.6
-	Hereford and Worcester fire authority		0.1	-	0.1
1.4	Herefordshire Council		2.0	1.6	3.6
-	West Mercia police		0.3	-	0.3
	Charges to collection fund				
0.3	Cost of collection allowance		-	0.3	0.3
0.6	Write offs of uncollectable debt		0.8	2.0	2.8
1.0	Increase/(decrease) of bad debt provision		0.1	(1.4)	(1.3)
(0.6)	Changes in provision for appeals		-	1.5	1.5
2.3	Other transfers to the general fund		-	2.1	2.1
217.8	Total		181.6	55.1	236.7
2.5	Surplus/(deficit) for the year		0.7	(1.1)	(0.4)
7.7	Balance bought forward		4.1	6.1	10.2
10.2	Balance carried forward	C3	4.8	5.0	9.8

Notes supporting the collection fund statement

C1. Business rates income

The total non-domestic rateable value at the year-end was £149.5 million and the national non-domestic rate multiplier for 2025/26 was 49.9p for the small business rate multiplier and 55.5p for the standard business rate multiplier.

Business rates income	2025/26 £m
Annual debit	77.1
Less	
Empty allowances	(1.8)
Transitional relief	(0.5)
Discretionary relief	(0.8)
Mandatory relief	(5.4)
Small business rate relief	(9.9)
Funded reliefs	(5.1)
Interest on refunds	(0.1)
Total	53.5

Notes supporting the collection fund statement

C2. Council tax income

Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values as at 1 April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council, West Mercia Police and Hereford and Worcester Fire and Rescue Authority, and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of council tax for a Band D property is multiplied by a specified proportion to give an amount due for other property valuation bands. The average council tax for a Band D property in 2025/26 was £2,428.92 including fire, police and parish precepts, with a range of between £2,363.08 and £2,567.77. The council tax base used for setting the council tax in 2025/26 was 72,816.74. The Band D equivalents in each valuation band are shown in the table below:

Band	Valuation range	Charge factor	Band D equivalent
A	Up to £40,000	6/9	5,481.25
B	£40,001 to £52,000	7/9	11,919.21
C	£52,001 to £68,000	8/9	12,920.24
D	£68,001 to £88,000	9/9	12,073.83
E	£88,001 to £120,000	11/9	13,933.17
F	£120,001 to £160,000	13/9	10,275.39
G	£160,001 to £320,000	15/9	5,893.44
H	Over £320,001	18/9	320.21
Total			72,816.74

Council tax income	2025/26 £m
Council tax debit	216.2
Banding change	7.2
Less	
Discounts	(18.5)
Exemptions	(6.5)
Council tax reduction	(15.8)
Disablement relief	(0.3)
Total	182.3

Notes supporting the collection fund statement

C3. Collection fund surplus/(deficit)

The Collection Fund surplus at 31 March 2026 is split as follows:

Collection fund surplus/(deficit)	Council tax £m	Business rates £m	Total £m
Central government	-	2.5	2.5
Hereford and Worcester fire authority	0.2	-	0.2
Herefordshire Council	4.0	2.5	6.5
West Mercia police	0.6	-	0.6
Total	4.8	5.0	9.8

Governance statements



Annual governance statement

Introduction

The Annual Governance Statement is a review of our activities to ensure that the council is carrying out its functions effectively. The quality of governance arrangements is paramount to enable the council to make decisions using high-quality information supported by a comprehensive understanding of risk. This statement explains how the council has discharged its governance responsibilities during the period from 1 April 2025 to 31 March 2026, the key governance mechanisms in place and planned improvements for 2026/27 and beyond.

Our risk management process is a key part of our governance arrangements and provides assurance that:

- our business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and properly accounted for; and
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

The purpose of the Governance Framework

The council is committed to improving governance through a process of continual evaluation and review, delivered through the seven principles of good governance as identified in the Delivering Good Governance in Local Government Framework 2016 and supported by the council's Constitution and processes which strengthen corporate governance.

Our system of internal control is designed to manage risk to a reasonable level and is based on an ongoing process to identify and manage risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically. It cannot eliminate all risk of failure but provides reasonable assurance of effectiveness.

This Annual Governance Statement is published in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework 2016 and 2025 Addendum. The council aims to achieve good standards of governance by adhering to the seven core principles below:



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Overview of Governance Framework

Key elements of the council's governance framework, which have been in place throughout 2025/26 are set out below:

Leader, Cabinet and Council

The council operates a leader and cabinet model of governance in which the Leader and Cabinet are responsible for all of the council's executive functions except those required by law or the Constitution to be undertaken by full Council.

Decision Making

Decisions may be taken by full Council, Cabinet, individual Cabinet Members (for decisions that sit within their portfolio areas), Committees and Sub-committees and Officers who have been delegated specific responsibilities in accordance with the council's scheme of delegation and financial procedure rules. There is an approved governance process for each type of decision, supported by the legal requirements and provisions set out in the council's Constitution.

Risk and Performance Management

The council's risk management arrangements ensure operational and strategic risks are managed effectively to support increased performance and delivery of corporate priorities. Identified risks and mitigating controls are monitored through Service, Directorate and Corporate Risk Registers, reported to the Corporate Leadership Team and Audit and Governance Committee.

Statutory Officers

- Head of Paid Service (the Chief Executive): responsible for the operational management, leadership and delivery of services across the council, supported by the senior Leadership team comprising Corporate Directors from the three directorates: Community Wellbeing, Children and Young People, Economy and Environment, together with the corporate directors.

- Director of Governance and Legal Services (the Monitoring Officer): responsible for maintaining the Constitution and ensuring that functions act in accordance with the Constitution and relevant legal requirements. These arrangements include overseeing the ethical conduct of the council and the production of associated codes, conventions and protocols.
- Chief Finance (Section 151) Officer: responsible for the oversight and delivery of financial management arrangements; achieved through a robust financial control framework, financial procedure rules, a scheme of delegation and an independent and objective Internal Audit function.
- Statutory Scrutiny Officer: responsible for promoting the role of the council's Scrutiny Committees within the council and providing guidance and support to Scrutiny Members. This role cannot be held by the Head of Paid Service, Monitoring Officer or Chief Finance Officer.

Corporate Leadership Team

The council's Corporate Leadership Team (CLT) is collectively responsible for ensuring that effective governance arrangements are in place and are subject to regular review. CLT provides leadership, determines policy and upholds expected standards of behaviour.

Scrutiny Committees

Scrutiny is a statutory role fulfilled by councillors who are not members of the Cabinet. The role of the scrutiny committees is to help develop policy, to carry out reviews of council and other local services, to provide effective challenge and to hold decision makers to account for their actions and decisions.

Audit and Governance Committee

The Audit and Governance Committee oversees the council's audit and corporate governance arrangements and provides independent assurance on the adequacy of the risk management framework and internal controls. The Committee considers annual audit plans and reports of internal and external auditors.

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External Audit

External Audit provides an opinion on the council's annual Statement of Accounts and review the council's Value For Money (VFM) arrangements which are designed to secure economy, efficiency and effectiveness in its use of resources.

Internal Audit

Internal Audit provides an independent and objective opinion on the council's governance, risk management and control environment; evaluating effectiveness through a risk-based approach. The annual Internal Audit Plan comprises: operational audit reviews, cross-cutting governance audits, annual review of key financial system controls, IT audits, grant assurance work and any other special or unplanned review, aligned to the council's corporate risks.

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Review of Effectiveness

The review of effectiveness is informed by the work of Senior Officers and managers with responsibility for the design and maintenance of an effective governance environment. It is also informed by the work of Internal Audit and the annual opinion provided by the Head of Internal Audit, Member assurance through annual reports of Committee chairs and the findings of external assessments from external audit, inspectorates, regulators and the Local Government Association Corporate Peer Challenge.

The results of the annual review of the effectiveness of the council's governance arrangements during 2025/26 are set out below and demonstrate how the council has complied with the seven principles of the CIPFA/Solace Framework.

Areas for improvement, where it is recognised that governance arrangements could be further strengthened, are included as part of the assessment and these are supported by a detailed action plan. Progress against the plan will be reported to Audit and Governance Committee to ensure that work is undertaken to deliver the identified improvements.

Assessment of the effectiveness of governance arrangements during 2025/26

Core Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Key aspects of the council's governance arrangements during 2025/26:

We have arrangements in place to provide assurance that our values are upheld, and that members and officers demonstrate high standards of conduct and behaviour to comply with laws and regulations. These include:

- We have reviewed and refreshed the council's Using Artificial Intelligence (AI) Policy with a focus on setting clear expectations on the use of AI tools and introducing eight 'our Herefordshire AI principles' to ensure AI is used safely, ethically and legally.
- Mandatory training completed in 2025/26 included modules which support decision making and reporting: Information Access & Information Governance, Information Security, Equality, Diversity & Inclusion (EDI). The council has achieved its highest completion rates for mandatory training this year with over 98% of staff having completed the modules before the deadline against a target completion rate of 95%.
- The Employee Code of Conduct and supporting Employee Interest Policy and Employee gifts and hospitality Policy set out rules for dealing with employees' interests. Each employee is required to make an annual return with regard to personal interests, in addition to declaring any gifts and hospitality or interests as they arise.
- Improvements have been delivered in supporting employees to declare interests. Employees are required to declare interests on day one when joining the council, on an annual basis and when completing the Employee Code of Conduct mandatory training module.
- Risk management training has been delivered to Cabinet and the council's Leadership Group and tailored support is provided to risk owners and Service and Directorate teams as part of routine risk management activity.
- An update on the operation of the employee Whistleblowing Policy was reported to Audit & Governance Committee in October 2025 to provide assurance on the effectiveness of arrangements in place for employees, and others, to raise concerns that may be in the public interest.
- In July 2025, Audit & Governance Committee received an update on the number of exemptions to the council's Contract Procedure Rules to provide assurance of appropriate oversight and compliance with the rules.

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- The Shareholder Committee forms part of the overall governance arrangements for Herefordshire Council in relation to companies and other legal entities which are wholly or partly owned or controlled by the Council. The Committee has met during 2025/26 to review the position and performance of companies in which the council has a legal interest. The Committee ensures the council's interests are monitored so that financial and other risks can be escalated as appropriate.
- Engagement through Leadership Group, All Staff Briefings and collaboration across Corporate Leadership Team and individual Directorate Teams has taken place throughout 2025/26 ensuring that information about the council's strategic priorities and planned activity is shared in a timely way to enable informed decision making at all levels across the organisation.
- Additional training has been delivered through the council's Leadership Group in 2025/26 for officers to share across their teams including risk management and governance and decision making.
- Equality Impact Assessment (EIA) guidance was revised in 2025 to incorporate the impact of cost increases on certain protected characteristics and a new template developed to ensure compliance on completion of EIAs and Equality Impact Screening Checklists.
- We have continued to review the council's Constitution and associated documents to strengthen arrangements for business cases for capital schemes and to clarify processes for public and Member questions, committee member substitutions and the publication of Records of Operational Decisions (RoODs).
- The council has arrangements in place to monitor and assess the ethical behaviour of external service providers across commissioning and contract lifecycles. Procurement and pre-contract due diligence includes a review of providers' Equal Opportunities and Environmental policies, the measures in place to prevent slavery and human trafficking within their business and supply chains, and suppliers are required to comply with the council's whistleblowing policy. Contract and performance management arrangements monitor the delivery of safe, lawful and

ethical services and external oversight and challenge is provided through multi-agency quality and safeguarding forums.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- We will continue to review the Using Artificial Intelligence (AI) Policy, with oversight throughout the year by the Information Governance Steering Group.
- We will continue to promote a culture of accountability and strong ethical values through mandatory learning modules in 2026/27.

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

Key aspects of the council's governance arrangements during 2025/26:

- The Chief Executive and Corporate Leadership Team are committed to ensuring that employee feedback is sought, listened to and acted upon. To promote engagement, maintain effective employee relations and share information, monthly all staff briefings are hosted by the Chief Executive and Leadership Group.
- Continued engagement with staff through the Chief Executive's weekly staff update to share staff news, wellbeing advice, training and development opportunities and relevant partner news.
- A multi-year communications strategy has been developed and approved, aligned with Council Plan priorities and timeline. It includes a capability plan to bolster nine key areas, including channels, content, commissioning and coordination. The most recent performance data underlines improvements in reach, followers, engagements and video views. This refreshed activity has been effective in engaging audiences more directly and a

Annual governance statement

number of campaigns have supported key organisational priorities including Children's Services recruitment.

- Political Group Consultations to inform decisions with financial or community significance; to provide a political viewpoint for officers to capture in key decision reports and demonstrate the council's commitment to encourage cross party engagement in decisions before they are taken.
- A Record of Operational Decision (RoOD) and/or a Key Decision is published for contracts awarded above the threshold determined by the Contract Procedure Rules and Constitution. This ensures openness and transparency in decision-making, in line with The Openness of Local Government Bodies Regulations 2014.
- As part of consultation on proposals for the 2026/27 revenue budget and capital programme, the council invited residents and stakeholders to consider funding choices and the impact of changes in income and expenditure on the delivery of services through an online budget consultation. Engagement also asked for feedback on priorities for the 2026/27 budget and council tax increase options.
- Acting on feedback from employee surveys that staff wanted more opportunities to contribute ideas and opinions, an additional budget survey was undertaken, encouraging staff to share ideas and shape decisions with specific feedback provided via an all staff briefing session.
- Feedback from events and surveys to inform the council's corporate priorities. Consultations and surveys, to engage the views of stakeholders, during 2025/26 included: Herefordshire Local Transport Plan 2025-2041, 2026/27 Budget proposals, local cycling, walking and wheeling infrastructure plan, regeneration of Merton Meadow, the Local Government Boundary Commission electoral review, Homelessness Prevention and Rough Sleeping Strategy and Hereford 2050 City Masterplan.
- The council has engaged with key stakeholders and partners on the development of a targeted, focused delivery plan for the overarching Big Economic Plan. This included consultation and

challenge with input from Members, officers, the Economy & Place Board, Skills Board and Business Growth Board.

- A Steering Group was established by political Group Leaders in 2025/26 with collaboration to produce the council's response to the Foundational Strategic Authority and Spatial Development Strategy Government consultation.
- A Major Projects Delivery dashboard was developed during 2025/26 with a monthly update provided to Corporate Leadership Team and Cabinet. The dashboard highlights the key dates and decisions as well as Lead Officers, planned activity and risk status in respect of each of the council's major and capital projects. This process has ensured additional oversight of risks in the delivery of projects. This is in addition to the individual project boards and Member and Officer project specific working groups.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- Arrangements to enhance and strengthen governance, internal challenge and oversight of the council's major and capital projects will continue in 2026/27 through Project Assurance Reviews. This internal process will identify areas where controls can be strengthened to support successful project delivery. Each review will consider programme management, adequacy of project plans, risk management arrangements, capacity and capability of project and technical teams, budget monitoring and reporting and project governance and reporting arrangements.
- The council will continue to develop relationships with partners and statutory organisations through the Nutrient Management Board and river-health related initiatives to strengthen collaboration.
- The process of responding to recommendations made by the council's Scrutiny Committees will be strengthened in 2026/27 to ensure responses are provided within the constitutionally required two-month period. A new recommendation action tracker is being

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developed alongside current arrangements and dedicated scrutiny webpages will include information on task and finish group activity and recommendations. This will provide greater public visibility and transparency of the scrutiny function.

Core Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

Key aspects of the council's governance arrangements during 2025/26:

- The Herefordshire Council Plan 2024-2028, alongside the Medium-Term Financial Strategy 2026/27 to 2029/30, provides the overarching policy framework within which decisions will be taken and resources allocated over the next four years. The Council Plan sets out the council's vision across four priority areas: People, Place, Growth and Transformation. The annual Delivery Plan underpins the Council Plan and individual Service Plans provide a framework to support effective performance management and to ensure activity is aligned to the priorities and principles of the Delivery Plan and Council Plan.

People: We will enable residents to realise their potential, to be healthy and to be part of great communities who support each other. We want all children to have the best start in life.

Place: We will protect and enhance our environment and ensure that Herefordshire is a great place to live. We will support the right housing in the right place, we will support access to green spaces and we will do everything we can to recover the health of our rivers.

Growth: We will create the conditions to deliver sustainable growth across the county; attracting inward investment, building business confidence, creating jobs, enabling housing development along with providing the right infrastructure.

Transformation: We will be an efficient council that embraces best practice, delivers innovation through technology and demonstrates value for money.

- Progress against the 2025/26 Delivery Plan has been monitored and reported through the quarterly Cabinet report, progress reporting to the Corporate Leadership and through annual service plans and individual performance and development plans.
- The 2026/27 Delivery Plan, approved by Cabinet in March 2026, includes key deliverables and milestones not completed in 2025/26 to be monitored for delivery in 2026/27, alongside new deliverables and milestones to progress the key objectives within the Herefordshire Council Plan set against the priorities of People, Place, Growth and Transformation.
- The annual Delivery Plan is informed by the key characteristics of Herefordshire, as outlined on Understanding Herefordshire (the council's Joint Strategic Needs Assessment). Factors such as rurality, the ageing population and social mobility for our young people are key drivers at the heart of the vision, priorities and objectives.
- A Cabinet Task & Finish group was established in 2025/26 to update the Carbon Management Plan (CMP) and action plan to improve focus and consistency of the council's emissions reporting and targeted actions. The completed Plan will be approved by Cabinet for implementation in early 2026/27.
- The Herefordshire Climate and Nature Board has met regularly in 2025/26. Officers have worked on carbon budget modelling for energy, buildings, domestic, land use and agriculture and waste management and transport to inform the Board's priority actions. A Climate and Nature networking event was held during the year with attendance from key stakeholders across the county. This event served as an opportunity for the Board to update the outcome of modelling activity and share key themes and future priorities.
- The Greener Footprints communications channels and e-bulletin aim to support the county's response to climate and nature emergencies. These sources highlight schemes offered by the council including the Warm Homes Local Grant, Biodiversity and Nature grant scheme, community car clubs, biodiversity schemes

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for schools, business energy grants as well as initiatives provided by other local organisations.

- Decision making across the council is supported by a clear governance framework and this ensures appropriate review and challenge of information across relevant teams including Finance, Legal, Governance, Risk, Equalities. Where appropriate, decisions are aligned to the priorities of the approved Council Plan. Cabinet and Committee reports set out the environmental implications of recommendations for consideration as part of decision making.
- The Finance Procedure Rules and Contract Procedures Rules were updated in 2025/26 to incorporate the legislative requirements of the Procurement Act 2023 and Procurement Regulations 2024; updates were approved by the Audit & Governance Committee.
- The council has proactively led sub-regional engagement in identifying a future basis for devolution through establishing a proposed Foundation Strategic Authority and Spatial Development Strategy area economic partnerships. Key analysis has been undertaken to consider economic partnerships and interdependencies and sectoral and strategic alignment across the wider region. In 2025 a Steering Group of the political Group Leaders was formed to engage public sector, community and private sector leaders as well as all locally elected members and Members of Parliament.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- The council will continue to engage with the Ministry of Housing, Communities and Local Government (MHCLG) and Leaders and Chief Executives from neighbouring local authorities to explore opportunities for Herefordshire as part of Foundation Strategic Authorities and Spatial Development Strategy geographies.
- The council will continue to work with strategic partners, residents and local organisations to reduce carbon emissions and achieve

improved energy efficiency, energy resilience and cost savings. Activity through the Carbon Management Plan 2026/27 to 2030/31 will contribute to key local goals and wider national objectives by 2030.

- A review of the commissioning strategy will take place in 2026/27 including the introduction of a low entry commissioning framework to support engagement with the Voluntary, Community and Social Enterprise (VCSE) sector and development of a social value approach as part of wider commissioning and procurement.

Core Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

Key aspects of the council's governance arrangements during 2025/26:

- The council has robust processes in place to support financial planning and sustainability. The budget is informed by the Medium-Term Financial Strategy (MTFS) with key risks and assumptions clearly identified and reported to Members. The budget setting process identifies financial pressures and risks to achievement of approved savings, and these are subject to challenge and scrutiny by relevant stakeholders.
- Updates to Cabinet in 2025/26 included the Annual Review of Earmarked Reserves, setting out the council's approach to maintaining appropriate levels of reserves to respond to future risks, and an update on the MTFS to highlight headlines from the Spending Review and potential impact of local authority funding reform on the council's future financial position.
- The Dedicated Schools Grant (DSG) position and impact of Special Educational Needs and Disabilities (SEND) Reform and the High Needs Stability Grant on the council's overall financial position has been reported through Schools Forum, Cabinet and Scrutiny Committees.
- Development of the 2026/27 revenue budget and capital programme included increased engagement and transparency

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across Group Leaders, and their political groups, to share information on the potential outcome of the fair funding review and its impact on the council's revenue budget and capital programme.

- Monthly Budget Board meetings of Corporate Directors and Service Leads, the Chief Executive and S151 Officer, have taken place throughout 2025/26 to monitor key Directorate pressures and challenges in the delivery of savings, and to identify action plans to manage cost pressures and mitigations for 'at risk' savings. This activity has been supported by Directorate led Savings Boards and Expenditure Control Panels.
- Performance against actions from the council's Delivery Plan was reported quarterly to Cabinet during 2025/26.
- Responsibility for the delivery of the council's strategic objectives lies with individual Directorates and this is monitored through individual Directorate Plans, Service Business Plans and Individual Personal Development Plans to ensure the alignment of individual activity to corporate ambitions.
- Finance, Service and Performance teams have worked throughout 2025/26 to identify improvements and strengthen the links between activity and financial data which inform monthly forecasts and budget setting.
- A cross-party Housing Working Group was established in 2025/26 to address the county's critical housing needs and increasing demand for temporary accommodation. The council has supported a whole-Herefordshire collaboration approach to respond to the shortage of local housing with registered providers.
- The Herefordshire Business Growth Board was established in 2025/26. The Board will play a key role in driving the economy, supporting business growth, promoting innovation and collaboration and championing inward investment in Herefordshire.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- New commissioning workstreams will be implemented in 2026/27: Care in Your Home, Working Age Adults Support and Care Home Partnership. These workstreams will ensure that interventions are targeted to individuals' needs whilst improving control of expenditure.
- A tailored Herefordshire Council Outcomes Framework will be used to enhance performance monitoring and reporting in 2026/27 alongside an internal performance management tool to support self-service and bespoke reporting against key performance indicators and Delivery Plan milestones.
- Quality Circles are based on the idea that an employee doing a certain task is the most informed on that topic and best placed to develop solutions through innovation. A pilot of Quality Circles will be implemented in Children's Services in April 2026 as a mechanism to support staff to contribute to improvement and performance of the services. The effectiveness of this activity will be evaluated at the end of 2026/27.

Improvement and transformation of children's social care has been the council's highest priority, and a significant governance issue, since the Ofsted review of the service in July 2022.

Following the Inspection of Local Authority Children's Services (ILACS) that took place in November 2025, Herefordshire Council's Children's Services have been rated 'Good' overall by Ofsted, with each specific service area receiving a 'Good' judgement and the 'Impact of leaders on social work practice with children and families' judged as 'Outstanding'. This rating reflects the hard work and dedication of practitioners, managers, Members and partners in the delivery of improvements through the Herefordshire Children's Services and Partnership Improvement Plan.

Core Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

Key aspects of the council's governance arrangements during 2025/26:

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- Regular meetings between the three 'Golden Triangle' statutory officers (Head of Paid Service, Chief Finance Officer and Monitoring Officer) have taken place throughout 2025/26. These meetings, to review current and potential future political, financial, legal, staffing and other issues that may impact on delivery of the statutory duties, and the constructive work relationship between the three statutory officers form a key element of overall governance arrangements.
- The council's leadership development programme (@LeadHC) was launched in 2025/26 to address gaps in the learning and development offer and strengthen leadership skills and capabilities. The programme aims to develop inspirational leaders across four themes: Grow, Aspire, Empower, Innovate.
- The first cohort of delegates in the Aspire and Empower programmes have 'graduated' with positive support and feedback across the council. The Innovate programme, for senior leaders, will recruit its first cohort of delegates in 2026/27.
- The council has provided a range of learning and development opportunities for staff at all stages of their careers, delivered through the Learning & Organisational Development Team. This includes Mandatory Training modules as well as opportunities through 'My Learning Hub'.
- A review of Member mandatory training was completed by the Member Development Working group in August 2025 and the second round of mandatory training was undertaken during September to November 2025. All training was recorded and placed on the Councillors Intranet site as a resource for members to utilise on an ongoing basis for the remainder of the current administrative term.
- A corporate transformation board has been established and in place since August 2025. The board is chaired by the Chief Executive and meets monthly to set the direction and ambitions for transformation, drive delivery and manage strategic risk and resources.
- To further embed the council's **THRIVE** values of **Trust**, **Honesty**, **Responsibility**, **Inclusivity**, **Value** and **Empathy**, a values-based recruitment framework has been launched in 2025/26.

- Staff are able to discuss and agree training and development needs through the annual 'My Conversation' process.
- During 2025/26, regular updates on the council's financial position and performance in the year to date, have been shared with the council's Leadership Group (staff who report directly to a member of the Corporate Leadership Team) and through All Staff Briefings.
- Interactive information and learning sessions delivered to the Leadership Group in 2025/26 have included Digital Leadership & Skills, Governance, Finance, Children's Services and Risk Management arrangements.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- The council will continue to identify and deliver improvements to the Member two-yearly mandated training programme, informed by feedback following the review carried out in 2025 and training modules provided.
- The Scheme of Delegation will be kept under review and updated as required.
- Activity to strengthen organisational capacity and capability in 2026/27 will include the introduction of a new Learning Management System and expanded self-help learning offer, delivery of a senior leadership programme, and development of our digital capability through our digital skills offer.

Core Principle F: Managing risks and performance through robust internal control and strong public financial management

Key aspects of the council's governance arrangements during 2025/26:

- The council's performance management framework sets out the approach to business planning, monitoring performance and risk

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management and this structure enables the alignment of resources, people and finance to the ambitions outlined in the Council Plan. Quarterly budget and performance reports are presented to Cabinet to report progress against the agreed revenue budget, capital programme, savings and achievement of key milestones in the Delivery Plan.

- Risk management forms an integral part of the council's governance arrangements and decision-making processes and is fundamental to the successful delivery of strategic objectives. Effective risk management enables the council to make informed decisions in respect of challenges and risks within the boundaries of risk appetite, available resources and legislative and regulatory requirements and strengthens the council's ability to be agile to respond to challenges and opportunities.
- The Corporate Leadership Team (CLT) and Cabinet have undertaken quarterly reviews of the Corporate Risk Register to update risk scores, consider the adequacy of control measures and mitigating actions and identify new threats and opportunities to the delivery of the objectives and priorities of the Council Plan 2024-28.
- A consistent Risk Register template to record and monitor individual Directorate, Service and Project risks has been developed with automated links and escalation flags; this template aligns risks to the council's approved Risk Strategy and Risk Appetite Statement. A SharePoint site and Teams channel has been established to share guidance, training and enable interaction between risk owners.
- The council's 2025/26 Internal Audit Plan was reviewed to ensure alignment with the refreshed Risk Strategy and risks identified in the Corporate Risk Register and this was approved by the Audit & Governance Committee.
- The council's Counter Fraud and Corruption Strategy promotes a culture in which fraud, bribery and corruption are not tolerated and supports the prevention and detection of fraud across the organisation. Work to raise awareness internally and externally has continued in 2025/26: additional training has been delivered to staff and Members, additional resources to raise awareness of fraud

have been made available to staff and we have continued to develop methods of partnership working to identify and investigate fraud. The Anti-Fraud, Bribery & Corruption Report outlining counter-fraud activities and progress and outcomes aligned with strategic objectives was reviewed by Audit & Governance Committee in January 2026.

- The council supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation.
- The Financial Procedures Rules (FPRs) control the way the council manages its finances and safeguards its assets. They form part of the Constitution and outline the financial roles and responsibilities for staff and Members and provide a framework for financial decision-making. An update to the FPRs was approved by Audit & Governance Committee in January 2026.
- Internal financial reporting and monthly Directorate Budget Board meetings have supported early identification and effective management of financial risks during 2025/26; enabling recovery plans and expenditure controls to be implemented to influence the final outturn position. A budget monitoring report is prepared for Directorate and Corporate Leadership Teams on a monthly basis. These reports are also presented at Cabinet Briefings in addition to the quarterly monitoring reported to Cabinet.
- Individual Directorates continue to exercise robust financial management through routine expenditure control panels. New arrangements in 2025/26 include the transfer of the Quality Assurance team for commissioned services, including placements, to the Children & Young People Directorate. This provides clarity of function, removing duplication and improving practice in contract management to ensure best value and good outcomes.
- The Shareholder Committee has continued to exercise its functions and responsibilities in respect of its shareholdings in Hoople Ltd and Cyber Quarter Limited and has convened to consider both service and financial performance.

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The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- Risk management takes place across the council at Corporate, Directorate and Service levels and activity will continue in 2026/27 to embed and develop risk management by risk owners at all levels within the risk management framework including elected members.
- To support delivery of approved savings in 2026/27, arrangements to monitor progress and identify risks and challenges to delivery will be strengthened. A monthly monitoring and assurance process will take place, led by a Service Director or the Corporate Director. This activity will support and inform monitoring of Directorate financial position and performance at the monthly Budget Board meetings.
- The MTFs will be updated in 2026/27 to reflect the impact for the council of the multi-year funding Settlement and in-year funding allocations as further information is released.
- Activity to develop specific actions and milestones as part of the council's Future Financial Strategy will be a key focus from April 2026 to close the estimated funding gap in future years and protect the council's future financial sustainability.

Core Principle G: Implementing good practices in transparency, reporting and audit to deliver effective accountability

Key aspects of the council's governance arrangements during 2025/26:

- Arrangements for the governance of the council, including terms and reference of committees, political group representation on committees and outside bodies and appointments of committee chairpersons and vice chairpersons are approved at the Annual Meeting of Council.
- The 2024/25 draft Statement of Accounts was published in May 2025, one month ahead of the statutory deadline, to support early

audit testing from June 2025. The early publication of the accounts, alongside high quality supporting working papers, enabled the council to achieve an unqualified audit opinion and External Auditor's Annual Report in September 2025.

- The audit report, and the timely unqualified opinion on the 2024/25 financial statements, provide valuable, independent assurance that the council has robust financial planning arrangements in place to identify all significant financial pressures and risks to financial resilience and to support the sustainable delivery of services in accordance with strategic and statutory priorities.
- An update on the actions identified to deliver continuous improvement in governance arrangements in the 2024/25 Annual Governance Statement was reported to the Audit & Governance Committee in September 2025.
- Internal audit arrangements have been strengthened in 2025/26 with refreshed resources led by a new Head of Internal Audit and a revised Internal Audit Plan, developed using a risk-based, assurance mapping approach which is aligned to the council's corporate objectives and priorities and the key risks which may prevent them from being achieved.
- Quarterly reports to update Members on progress of internal audit activity and key internal control issues arising have been presented to the Audit & Governance Committee in 2025/26.
- Arrangements are in place to ensure that we fully comply with the requirements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA Statement on the Role of the Head of Internal Audit.
- The council is registered as a Controller under the General Data Protection Regulation (GDPR) which governs how we manage and process the information we collect and retain. There is a nominated Data Protection Officer and procedures in place that explain how we use and share information, as well as arrangements for members of the public to access information.
- Information is published on the council's website to provide details of the working of the organisation, what we spend, and how our decisions are made. All council decisions are published, along with

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agendas and minutes for Committees and Public and Member questions and answers.

- Cabinet or Cabinet Member decisions are in place for all related activity, with appropriate delegations identified.
- Cabinet members are briefed at monthly portfolio briefing meetings, and regular cabinet meetings.
- The council's Monitoring Officer has a specific duty to ensure the council, its Officers and Members maintain the highest standards in their values and behaviours.
- Exemptions to the Contract Procedure Rules approved during 2024/25 were reported to the Audit & Governance Committee in June 2025. Commercial and legal services have continued to work with council departments throughout 2025/26 to ensure exemptions are only proposed where there is no possible alternative.
- In June 2025, the council hosted a Corporate Peer Challenge (CPC) managed by the Local Government Association (LGA). This process provides an independent and objective assessment, led by a team of senior officers and Member peers, of the council's achievements, challenges and future plans. The resulting LGA findings report commended the council's leadership and recognised the council as a "good council that is striving hard to improve further".
- An action plan was prepared to respond to the recommendations made in the LGA findings report identifying planned actions, lead officers and delivery timelines. The findings report and corresponding action plan were reported to and approved by Cabinet in September 2025.

The governance arrangements, as identified above, have been effective in the period from 1 April 2025 to 31 March 2026. Areas where it is recognised that governance arrangements could be further strengthened include:

- The council will continue to strengthen internal audit arrangements through the development of the 2026/27 Internal Audit Plan. The Plan will include key coverage of core financial systems,

compliance with laws and regulations, controls in place for new grant schemes and activity across Directorates informed by Corporate and Service level risks.

- The development of business cases will be reviewed in 2026/27 to improve the quality of reporting to inform decision-making and the assessment of investment decisions.
- The Service Level Agreement (SLA) between the council and its subsidiary company Hoople Ltd will be reviewed in 2026/27 to provide assurance that the relationship continues to support delivery of the council's strategic priorities and its future financial strategy.

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Significant Governance Issues

Actions taken to address significant governance challenges during 2025/26 are noted below.

- Continued improvement in Children's Services:** During 2025/26, the council has continued to work hard to deliver the improvements required in Children's Services and good progress with renewed pace was noted in the Ofsted monitoring visits in the lead up to the full Inspection of Local Authority Children's Services (ILACS) in November 2025. The inspection report found the council's Children's Services to have 'Good' overall effectiveness with 'Outstanding' impact of leaders on practice. The outcome of the ILACS inspections, alongside a report completed by the DfE appointed Commissioner, will inform the Secretary of State decision regarding the existing statutory direction and next steps for the council. At the meeting of the independently chaired Children's Improvement Board in January 2026, the Board agreed to stand down, promoting a transition to enable monitoring of Children's Services, including the Children's and Young People's Plan and the Improvement Plan Phase 3, through routine channels in line with other non-inadequate councils. Governance and monitoring arrangements in 2026/27 will be fulfilled by the Corporate Leadership Team, Cabinet and the Children and Young People Scrutiny Committee.
- Financial Sustainability and Resilience:** Monthly Directorate Budget Boards have provided improved oversight of key cost pressures, delivery of the capital programme and challenges in the delivery of approved and brought forward saving targets during 2025/26, supporting the early identification and effective management of financial risks. Directorate control panels have continued to review expenditure on goods and services, as well as changes in staffing arrangements, to provide increased rigour and challenge over expenditure.

The review of governance arrangements during 2025/26 has identified the following areas which will be a key focus for the council's leadership in 2026/27:

- Delivery of major and capital projects:** The council has approved an ambitious capital programme for 2026/27 with significant activity planned to progress major and capital projects aligned to the council's Year of Delivery priorities in 2026. Robust monitoring of capital project delivery in 2026/27 will be required to identify and mitigate risks to project budgets, delivery of benefits and potential loss of grant funding. Project assurance reviews and planned improvements to the development of business cases will ensure that investment decisions deliver economy, efficiency and effectiveness in the use of resources.
- Activity to support the Future Financial Strategy:** The council has set a balanced budget for 2026/27 and we will continue to monitor the outturn position and achievement of savings targets throughout the year. Directorate expenditure controls will continue, as part of financial management arrangements, in 2026/27 to ensure delivery of services within the approved budget and early identification of cost pressures. Budget Boards will monitor achievement of savings targets, key financial pressures and risks and delivery of capital and major projects by Directorate. Assessment of financial position and performance in 2026/27 will include monitoring of delivery of the capital programme, cashflow position and improved reporting of the council's assets and liabilities including debt, long-term borrowing and use of earmarked reserves. The council's future financial strategy will ensure that the council's finances are aligned to its strategic priorities with a clear focus on required activity to ensure the future sustainability of the council and the services it delivers. High support and challenge of planned activity to deliver savings and efficiencies to resolve the estimated future funding gap will be a key area of focus in 2026/27.

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- Dedicated Schools Grant and SEND Reform Plan:** At 31 March 2026, the council's Dedicated Schools Grant (DSG) cumulative deficit is £36.3 million following a £16.3 million overspend within the High Needs Block. The DSG deficit is accounted for as an unusable reserve on the council's Balance Sheet, as permitted via statutory instrument which will remain in place up to March 2028; beyond the period of the statutory override, any balance on the DSG unusable reserve will transfer back to the council's Earmarked Reserves. The Final Local Government Settlement published on 9 February 2026 confirmed the proposed treatment of DSG deficits as part of wider SEND reform. The first phase of support will be to address historic deficits with a High Needs Stability Grant to cover 90% of High Needs-related DSG deficit accrued up to the end of 31 March 2026. Service and Finance teams are currently developing the council's Local SEND Reform Plan for submission by 19 June 2026. Subject to Department for Education (DfE) approval, the Plan will evidence eligibility for the High Needs Stability Grant to cover approx. £32.7 million (90%), with the remaining balance of £3.6 million (10%) to be a liability of the council once the statutory override period ends in March 2028.
- The council is committed to identifying actions to respond to local special educational needs and disabilities (SEND) and alternative provision to meet current and future levels of demand. The council's SEND Reform Plan will be underpinned by a credible financial strategy, a robust financial baseline, robust financial modelling and planning for use of Experts at Hand Offer and High Needs Provision Capital Allocation grant funding, clear understanding of the drivers of high-cost spend and a plan to respond to such pressures and a mechanism to enable quarterly financial monitoring. The High Needs Stability Grant and SEND Reform Plan are key components of the council's future financial strategy and delivery of the Plan will be a key area of focus for the council in 2026/27.

The key governance challenges facing the council in 2026/27 will be monitored by the Corporate Leadership Team and Audit & Governance Committee.

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Audit and Audit Assurances

The council's Statement of Accounts are audited by Grant Thornton UK LLP. In accordance with statutory requirements, the annual audit includes an examination and certification of the financial statements to confirm they are 'true and fair' and free from material misstatements and an assessment of the council's arrangements to secure economy, efficiency and effectiveness in its use of resources. In 2024/25, Grant Thornton gave an unqualified audit opinion on the financial statements.

The external auditor's work on the council's arrangements to secure value for money in 2024/25 did not identify any significant weaknesses or improvement recommendations in respect of arrangements for financial planning, alignment of financial plans to other operational planning and in identifying and managing risks to financial resilience. A key recommendation was raised in respect of the council's Dedicated Schools Grant (DSG) deficit position, and an improvement recommendation was made in respect of the achievement of savings in 2024/25.

The Annual Auditor's Report for the year ended 31 March 2025 acknowledges the transformation and improvements made in the delivery of Children's Services, downgrading the prior year significant weakness and key recommendation to an improvement recommendation. This finding supports the external inspection findings reported by Ofsted across multiple monitoring visits during 2024/25 and the 'Good' rating received in January 2026.

A key recommendation was raised in relation to strengthening challenge and control of capital expenditure to ensure effective governance and oversight of procurement decisions. The council has implemented improvements in this area with additional oversight across all major projects to consider individual and thematic challenges and risks in project delivery.

Internal audit services are provided by South West Audit Partnership (SWAP) and these services are managed and delivered in accordance with

the Public Sector Internal Audit Standards (PSIAS). SWAP is responsible for reviewing the adequacy of internal controls across all areas of the council's services, providing risk-based and objective assurance, advice and insight.

The annual Internal Audit plan and Internal Audit Charter are presented to and approved by the Audit and Governance Committee. The plan includes a range of activity designed to provide appropriate coverage of key business objectives, and is aligned to the Risk Strategy and risks identified in the Corporate Risk Register.

Further assurance is provided by reviews undertaken by external agencies including Ofsted, the Care Quality Commission, the Office of the Information Commissioner, the Local Government Association Corporate Peer Challenge and other Local Authority Inspectorates.

For the year ended 31 March 2026, the Head of Internal Audit issued a Reasonable Assurance opinion on the overall adequacy and effectiveness of the council's governance, risk management and internal control environment.

Certification

To the best of our knowledge, the governance arrangements, as defined above have been effective for the period from 1 April 2025 to 31 March 2026. We will use the areas for improvement identified through this review of effectiveness to ensure that these governance arrangements, alongside identified areas for improvement, continue to provide effective foundations for the council to achieve its objectives.

Paul Satoor
Chief Executive
Date: 29/09/2026

Jonathan Lester
Leader of the Council
Date: 29/09/2026

Independent auditor's report

This version of the Statement of Accounts is presented in advance of audit. The published version will include the Audit Certification on these pages.

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Glossary of terms

Term	Definition
Accounting policies	Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
Accrual	The recognition of income and expenditure as goods and services are provided, not when cash is received or paid.
Assets	A resource controlled by the council as a result of past events and from which future economic or service potential is expected to flow to the council.
Capital adjustment account	The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the comprehensive income and expenditure statement (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.
Carrying amount	The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
CIES	Comprehensive income and expenditure statement.
Creditors	Financial liabilities arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied and have been invoiced or formally agreed with the supplier.
Debtors	Financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.
Depreciation	The systematic allocation of the depreciable amount of the asset over its useful life.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Finance lease for lessor	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset.
Financial instruments adjustment account	The financial instruments adjustment account records the timing differences between the rate at which gains and losses are recognised for accounting purposes and the rate at which debits and credits are required to be made against council tax.

Glossary of terms

Term	Definition
Financial instrument	Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.
Grants and contributions	Transfers of resources to the council in return for past or future compliance with certain conditions relating to the operation of activities.
Historical cost	The carrying amount of an asset as at 1 April 2007 or at the date of acquisition, whichever date is the later, and adjusted for any subsequent depreciation or impairment.
HR and OD	Human Resources and Organisational Development.
IFRIC	International Financial Reporting Interpretations Committee (IFRIC) prescribes accounting treatment within the IFRS standards.
IFRS	International Financial Reporting Standards (IFRS) provide understandable, enforceable and globally accepted accounting standards.
Impairment loss	The amount by which the carrying amount of an asset exceeds its recoverable amount.
Intangible asset	An identifiable asset without physical substance e.g. computer software.
Inventories	These are assets; a) In the form of materials or supplies to be consumed in the production process b) In the form of materials or supplies to be consumed or distributed in the rendering of services c) Held for sale or distribution in the ordinary course of operations, or d) In the process of production for sale or distribution
Investment property	Property held solely to earn rentals or for capital appreciation or both.
Lease	A contract that conveys the right to use an asset for a period of time.
Liabilities	Present obligations arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.
Material	Items are material if they could, individually or collectively, influence the decisions or assessments of users. Materiality depends on the nature or size of the item, or both.
Minimum revenue provision (MRP)	A provision made for the repayment of notional borrowing used to finance capital expenditure.
Non-exchange transactions	Transactions in which an entity either receives value from another entity without giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
Operating lease for lessor	A lease other than a finance lease.
Private finance initiative (PFI)	A long term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to standard of performance.

Glossary of terms

Term	Definition
Property, plant and equipment (PPE)	Tangible assets held for use in the supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one year.
Provision	A liability of uncertain timing or amount.
Revenue expenditure funded from capital under statute (Refcus)	Legislation allows some items to be funded from capital resources that under normal accounting practice would be charged to the surplus/deficit on provision of services. These items are generally grants and expenditure on property not owned by the authority.
Related party	Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.
Revaluation reserve	The revaluation reserve contains the gains made by the council arising from increases in the value of its property, plant and equipment (and intangible assets). The balance is reduced when assets with accumulated gains are: a) revalued downwards or impaired and the gains are lost b) used in the provision of services and the gains are consumed through depreciation, or c) disposed of and the gains are realised. The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date were consolidated into the capital adjustment account.
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.
Right of use asset	An asset that represents a lessee's right to use an underlying asset for the lease term.
Short term absences account	The short term absences account absorbs the differences that would otherwise arise on the general fund balance from accruing for absences earned but not taken in the year. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
Bristol
BS2 0EL

29 September 2026

Dear Grant Thornton UK LLP

Herefordshire Council Financial Statements for the year ended 31 March 2026

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council (the "Authority") and its subsidiary undertaking (the "group") as shown in Appendix I to this letter, for the year ended 31 March 2026 for the purpose of expressing an opinion as to whether the group and Authority financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities, as set out in the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited, for the preparation of the group and Authority's financial statements in accordance with the Accounts and Audit Regulations 2015, International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Authority and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Authority has complied with all aspects of contractual agreements that could have a material effect on the group and Authority financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of Property, Plant and Equipment and Investment Property. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for International Accounting Standard 19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

- vii. Except as disclosed in the group and Authority financial statements:
 - a. there are no unrecorded liabilities, actual or contingent;
 - b. none of the assets of the group and Authority has been assigned, pledged or mortgaged; and
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached to this letter. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the group and Authority and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards. We also confirm that there are no additional known liabilities in relation to equal pay claims.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. We have updated our going concern assessment. We continue to believe that the group and Authority's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:
 - a. the nature of the group and Authority means that, notwithstanding any intention to cease the group and Authority operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the Authority to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the group and Authority's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Authority's ability to continue as a going concern need to be made in the financial statements
- xiv. The group and Authority has complied with all aspects of ring-fenced grants that could have a material effect on the group and Authority's financial statements in the event of non-compliance.

Information Provided

- xv. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and Authority's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the group and Authority from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Authority, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the group and Authority's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework, and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxv. The disclosures within the Narrative Report fairly reflect our understanding of the group and Authority's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Authority's Audit and Governance Committee at its meeting on 29 September 2026.

Yours faithfully

Name	Rachael Sanders
Position	Director of Finance
Date	29 September 2026

Name	David Hitchiner
Position	Chair of Audit and Governance Committee
Date	29 September 2026

Signed on behalf of the Authority

Appendix I
Hoople Limited

Appendix II
Unadjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on surplus/deficit of the provision of services £'000	Impact on general fund £'000	Managements reason for not adjusting
<u>IAS19 Pension Actuarial Valuations:</u> To ensure the draft accounts can be finalised within reporting timeframes, management commission two IAS19 reports. The first uses 10-month actual payroll data, with two months estimates. The second using a full 12 months actuals. The second report was received in May 2026, and we have reviewed this to ensure there is not a material difference. In summary, there is an overall net nil impact on the balance sheet.	NA	Dr Pension Asset 4,244 Cr Asset Ceiling Adjustment 4,244	NA	NA	Impact is net nil overall and the update is not material.
<u>Property, Plant and Equipment Indexation:</u> Our testing identified two errors in the indexation performed; 1 – An understatement of £440k was noted relating to the Energy from Waste asset where management had incorrectly calculated the indexation uplift. 2 – An understatement of specialised assets valued under the depreciated replacement cost methodology of £1,087k was identified. This stemmed from the valuer's use of indices from Q2 2025 to Q1 2026 when they should have used Q1 2025 to Q1 2026 which would account for the whole years movement. Note that we raised a separate recommendation on this point (See page 36 of AFR)	Cr Other Comprehensive Income (OCI) £1,527k	Dr Land and Buildings £1,087k Dr Plant and Equipment £440k	NA	Cr Revaluation Reserve £1,527k	Impact is not material.

<u>Property, Plant and Equipment Valuations:</u>	Dr Service Expenditure £691k Dr Other Comprehensive Income (OCI) £203k	Cr Land and Buildings £894k	Dr Service Expenditure £691k	Dr General Fund £691k Dr Revaluation Reserve £203k	Impact is not material.
During our testing we identified five assets which had non-significant differences in the floor areas used in the valuation compared to the council's records. The floor areas in these cases were overstated which causes the value of the assets to be overstated. This has resulted in the following unadjusted misstatement in the accounts. Note that this is similar to that identified in the prior year on the pages below. Please note that the adjustments are a mix of factual and extrapolated errors.	Note – The debit to service expenses is due to some of the assets impacted having no revaluation reserve balance				
<u>Property, Plant and Equipment Valuations:</u>	Cr Other Comprehensive Income (OCI) £696k	Dr Land and Buildings £696k	NA	Cr Revaluation Reserve £696k	Impact is not material.
During our testing of the obsolescence, we identified one asset (Hereford Grafton County Caravan Site Ross Road) for which we were unable to fully evidence the build year. The build year is an important element of the obsolescence calculation. The valuer had used 1980 as a build year and Council records indicated 1992. The implication is that if the Councils records are correct then too much obsolescence has been applied and the assets are understated. The error noted on this asset was £84k and extrapolated across the population the impact could potentially be £696k.					
Overall impact of current year unadjusted misstatements	Dr Services £691k Cr OCI £2,020k	Dr £1,329k	Dr £691k	Dr General Fund £691k Cr Revaluation Reserve £2,020k	

Independent auditor's report to the members of Herefordshire Council

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of Herefordshire Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2026, which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Movement in Reserves Statement, the Group Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2026 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2024) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance and Section 151 Officer use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Director of Finance and Section 151 Officer conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2024) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Director of Finance and Section 151 Officer use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's and the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance and Section 151 Officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Director of Finance and Section 151 Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in November 2024 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Director of Finance and Section 151 Officer

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Section 151 Officer. The Director of Finance and Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes 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 2025/26, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Section 151 Officer determines is necessary to

enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Section 151 Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Accounts and Audit (Amendment) Regulations 2015, the Local Government Act 2003, the Local Government Act 1972 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and Local Government Finance Act 2021))
- We enquired of management and the Audit and Governance Committee, concerning the group and Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management, internal audit and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. We determined that the principal fraud risks were in relation to:
 - management override of controls, specifically around large and unusual manual entries around year end reporting dates
 - potential management override in determining accounting estimates and judgements and transactions outside the course of normal business.
- Our audit procedures to address the principal fraud risk included:
 - evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud;
 - journal entry testing, with a focus on manual journals, as well as large and unusual journals; and
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of other land and building, investment properties and the net pension liability;
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or

intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it or recognise non-compliance.

- We communicated relevant laws and regulations and potential fraud risks to all engagement team members. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the group and Authority audit team members included consideration of their:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector in which the group and Authority operates
 - understanding of the legal and regulatory requirements specific to the Authority and group including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA/LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2026.

We have nothing to report, except that we identified two significant weaknesses in the Authority's arrangements for the year ended 31 March 2026:

Significant weaknesses in arrangements identified:	Recommendations:
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Financial sustainability

1. Dedicated Schools Grant (DSG) deficit

The cumulative DSG deficit rose from £20.0m at 31 March 2025 to £36.3m at 31 March 2026, equivalent to around 45% of usable revenue reserves and materially greater than the Authority's £10.1m General Fund balance. The Authority's Special Educational Needs and Disabilities reform plan, submitted to the Department for Education on 19 June 2026, may secure a High Needs Stability Grant covering 90% of the deficit accrued to 31 March 2026, but forecasts show further in-year deficits of £26.0m in 2026/27 and

Key Recommendation

The Authority should continue to implement the DSG Deficit Management Plan with the Department for Education and the Schools Forum, strengthening High Needs block expenditure controls, monitoring cost pressures and financial risk through quarterly finance reporting, and reporting progress to Cabinet and the Schools Forum until the DSG position is sustainable.

Significant weaknesses in arrangements identified: Recommendations:

£24.7m in 2027/28, with the residual historic deficit (c.£3.6m) falling due from the Authority's own resources when the statutory override ends on 31 March 2028.

This is a continuing significant weakness from the previous year.

2. Identifying and delivering savings to bridge medium-term funding gaps

The Authority delivered £13.2m (84%) of its £15.8m savings target in 2025/26, following 56% delivery in 2024/25. For 2026/27 the savings target rises to £20.0m – a 52% increase on 2025/26 delivery – with c.£8m of this already flagged as at risk in early quarter 1 reporting. The Authority also has a cumulative medium-term financial strategy (MTFS) funding gap of £83.4m from 2027/28 to 2029/30 (up from £5m in the prior year MTFS) for which no savings proposals have yet been developed; its new transformation programme is currently at an early stage.

This is a new significant weakness for 2025/26.

Key Recommendation

The Authority should develop and implement a credible savings and transformation plan to address the £83.4m medium-term funding gap identified in the MTFS, including setting out clear savings proposals from 2027/28 onwards, attaching a savings target and delivery timetable to the new transformation programme, and strengthening monitoring and mitigation of at-risk savings within the 2026/27 programme.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the relevant guidance issued by the Comptroller and Auditor General. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Herefordshire Council for the year ended 31 March 2026 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have received confirmation from the National Audit Office that the audit of the Whole of Government Accounts is complete for the year ended 31 March 2026. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2026.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 85 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature**]**

Grace Hawkins, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

29 September 2026



Title of report: External Auditor's Annual Report 2025/26

Meeting: Audit and Governance Committee

Meeting date: Tuesday 29 September 2026

Report by: Director of Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To present to the Audit and Governance Committee the External Auditor's Annual Report 2025/26 for information and discussion.

Recommendation(s)

That:

- a) **The committee reviews the external auditor's annual report, notes its findings and recommendations, and considers the management responses.**

Alternative options

1. There are no alternative options. The auditors Annual Report forms part of the statutory external audit of the council.

Key considerations

2. The external auditor's draft Annual Report for 2025/26 is attached at Appendix A. Under the National Audit Office (NAO) Code of Audit Practice, the external auditor is required to consider whether the Council has put in place proper arrangements around financial sustainability, governance and to secure economy, efficiency and effectiveness in the use of its resources. The Annual Audit Report looks back over the 2025/26 year and summarises all of the reports and work that the external auditors have undertaken. The report closes the 2025/26 audit.

Further information on the subject of this report is available from
Stacey Carter, Judith Tranmer Tel: 01432 383095, Tel: 01432 261867 email:
Rachael.sanders@herefordshire.gov.uk

3. As well as reporting on overall arrangements, the external auditor has considered whether there were any significant risks or weaknesses in the arrangements in place. The report includes the external auditor's findings together with their recommendations as to how any weaknesses identified can be addressed.
4. Key recommendations relate to significant identified under the NAO Code of Audit Practice and set out the actions the council should take, but don't require a published written response. Improvement recommendations are not as a result of significant weaknesses identified; these, if implemented, should improve arrangements in place.
5. Across the public and private sectors, the Financial Reporting Council (FRC) has set out is expectation of improved financial reporting and the requirement for auditors to demonstrate increased scepticism and challenge; to undertake additional and more robust testing referred to as 'raising the quality bar' of audit.
6. The report focuses on the arrangements in place during the financial year ended 31 March 2026 under three key themes: financial sustainability, governance and improving economy, efficiency and effectiveness in the use of resources.

Financial Sustainability

7. The auditor's work considers the council's arrangements to identify risks to financial resilience, financial pressures and funding gaps as well as the robustness of financial planning and monitoring activity to support strategic priorities.
8. In this area, the report notes that there are no significant weaknesses or improvement recommendations in respect of arrangements for financial planning, alignment of financial plans to other workforce, capital, investment and operational plans and in identifying and managing risks to financial resilience. The auditor's work included a review of financial reporting and risk management activity.
9. The assessment of the council's financial sustainability arrangements identifies 2 key recommendations in relation to: (1) the council's Dedicated Schools Grant (DSG) deficit position and (2) plans to bridge future funding gaps and identify achievable savings.
10. The key recommendation in respect of the council's DSG deficit position highlights continuing uncertainty in the reform of SEND funding from central government and the impact on the council's future deficit position. The council submitted its SEND Reform Plan to the Department for Education in June 2026 and will continue to monitor and report the impact of identified mitigations.
11. The key recommendation in respect of the council's estimated future funding gaps advises that the council should accelerate delivery of its transformation programme to support a multi-year savings programme.
12. An improvement recommendation has been made in respect of the organisational capacity and capability to deliver the council's programme of change.

Governance

13. The auditor's work considers how the council monitors and assesses risk, approaches and carries out its annual budget setting process, ensures effective processes and systems are in place to ensure budgetary control and report management information, ensures it makes properly informed decisions supported by appropriate evidence and how it monitors and ensures appropriate standards are met.

14. In all areas tested in respect of the council's governance arrangements, no significant weaknesses or improvement recommendations have been identified.
15. Testing completed confirms effective arrangements for risk management and counter fraud reporting, budget development and consultation, timely and comprehensive financial reporting, transparency of information to support decision making and appropriate behaviours and standards.

Improving economy, efficiency and effectiveness in the use of resources

16. The auditor's work considers how the council uses financial and performance information to assess performance and identify areas for improvement, delivers and engages in partnership relationships to meet objectives and how it commissions or procures services to assess delivery of expected benefits.
17. In this area, the report acknowledges the transformation and improvements made in the delivery of children's services; noting that structured improvement plans are supported by appropriate governance, ownership and monitoring arrangements. The prior year improvement recommendation has been removed and a good practice insight on the council's approach to improving children's services has been raised. This finding supports the Ofsted 'Good' rating in January 2026 and removal of the statutory direction.
18. In respect of arrangements to commission or procure services, the auditor's work confirms that the council has effective arrangements in place to manage and review commissioned services and contract and highlights the procurement of the new public realm services contract as an example. The auditor's assessment highlights that alternative delivery options were considered, alongside risks, benefits and implementation arrangements, and decisions were supported by legal and technical advice.
19. An improvement recommendation has been made in respect of performance monitoring and reporting arrangements to strengthen accountability and enable more effective scrutiny and challenge by Cabinet and the public.

Follow up of previous key recommendations

20. The auditor's work in 2024/25 identified 2 key recommendations in respect of: (1) the council's DSG deficit position and (2) governance and oversight of capital programme procurement decisions.
21. The key recommendation highlighting the DSG position has been updated and raised in 2025/26 as noted in paragraph 10 above.
22. The key recommendation, identifying actions to improve the governance and oversight of major and capital projects, has been closed noting arrangements to address weakness have been implemented.

Community impact

23. One of the principles in the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability. To support effective accountability the council is committed to reporting on actions completed and outcomes achieved, and ensuring stakeholders are able to understand and respond as the council plans and carries out its activities in a transparent manner. External audit contributes to effective accountability.

Environmental impact

24. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
25. Whilst this is a progress report on back-office functions and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the Council's Environmental Policy. For example, the external audit will be mostly completed remotely, reducing travel impact and paper usage.

Equality duty

26. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
27. The mandatory equality impact screening checklist has been completed for this activity, and it has been found to have no impact for equality.

Resource implications

28. There are no specific resource implications from the report itself. However, there may be resource implications from implementing specific recommendations. If these cannot be contained within approved budgets, then a specific decision will be presented for approval.

Legal implications

29. There are no specific legal implications arising from this report itself.

Risk management

30. Specific risks are included within the external auditor's report.

Consultees

31. None.

Appendices

Appendix A: Auditor's Annual Report on Herefordshire Council 2025/26

Background papers

None identified.

Herefordshire Council

Auditor's Annual Report
Year ending 31 March 2026

September 2026



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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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01 Introduction and context

Introduction

This report brings together a summary of all the work we have undertaken for Herefordshire Council during 2025/26 as the appointed external auditor. The core element of the report is the commentary on the value for money (VfM) arrangements. The responsibilities of the Council are set out in Appendix A. The Value for Money Auditor responsibilities are set out in Appendix B.

Opinion on the financial statements

Auditors provide an opinion on the financial statements which confirms whether they:

- give a true and fair view of the financial position of the Council as at 31 March 2026 and of its expenditure and income for the year then ended
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2025/26.
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014

We also consider the Annual Governance Statement and undertake work relating to the Whole of Government Accounts consolidation exercise.

Auditor's powers

Under the Local Audit and Accountability Act 2014, auditors of an Authority have a duty to consider whether there are any issues arising during their work that require the use of a range of auditor's powers.

These powers are set out on page 13 with a commentary on whether any of these powers have been used during this audit period.

In particular, auditors may issue:

- Statutory recommendations to the full Authority which must be considered publicly.
- A Public Interest Report (PIR)

Value for money

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 (referred to as Value for Money). The National Audit Office (NAO) Code of Audit Practice ('the Code'), requires us to assess arrangements under three areas:

- financial sustainability
- governance
- improving economy, efficiency and effectiveness.

Our report is based on those matters which come 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. During 2024/25, the NAO consulted on and updated the Code to align it with accounts backstop legislation. The new Code requires auditors to share a draft Auditor's Annual Report (AAR) with those charged with governance by a nationally set deadline each year, and for the audited body to publish the AAR thereafter. The deadline requirement for 2025/26 AARs is 30 November 2026.

Local government has remained under significant pressure in 2025/26

Past



The sector has seen prolonged funding reductions whilst demand and demographic pressures for key statutory services has increased; and has managed a period of high inflation and economic uncertainty.



Recruitment and retention challenges in many service areas have placed pressure on governance. Recent years have seen a rise in the instance of auditors issuing statutory recommendations.

Local

Present



Despite the Fair Funding Review 2.0, many councils continue to face significant financial challenges, including social care, SEND and temporary accommodation pressures. There are an increasing number of councils in receipt of Exceptional Financial Support from the government.



Councils, their auditors and other key stakeholders continue to manage and reset the backlog of annual accounts, to provide the necessary assurance on local government finances.

Future



AI and digital change are automating routine processes and enabling more personalised services for residents. This is shifting workforce skills as councils seek productivity gains. Risks around digital exclusion, data quality, ethics, and governance mean strong leadership and controls are increasingly important.



Many councils in England are impacted by reorganisation and / or devolution, creating capacity and other challenges in meeting business as usual service delivery.

Herefordshire Council is a unitary authority serving a predominantly rural county with a population of around 200,000 residents. The Council operates a Leader and Cabinet governance model and comprises 53 elected members. During 2025/26, the Council faced significant financial and service delivery challenges, including increasing demand for services and reductions in government funding. Alongside these pressures, the Council is progressing an ambitious programme of capital investment and transformation intended to support service improvement, financial sustainability and delivery of the Council Plan priorities.

It is within this context that we set out our commentary on the Council's value for money arrangements in 2025/26.

02 Executive Summary

Executive Summary – our assessment of value for money arrangements

Our overall summary of our Value for Money assessment of the Council’s arrangements is set out below. Further detail can be found on the following pages.

Criteria	2024/25 Assessment of arrangements	2025/26 Risk assessment	2025/26 Assessment of arrangements
Financial sustainability	R Significant weakness identified in relation to the Dedicated Schools Grant (DSG) deficit. Improvement recommendation raised in relation to savings.	Two risks of significant weakness identified in relation to the DSG deficit and medium-term funding gaps.	R Two significant weaknesses identified in relation to the DSG deficit, and identifying and delivering savings to bridge medium-term funding gaps and two key recommendations raised. One improvement recommendation raised in relation to the Council’s capacity and capability for delivering change.
Governance	G No significant weaknesses identified. No improvement recommendations raised.	No risks of significant weakness identified.	G No significant weaknesses in arrangements identified. No improvement recommendations raised.
Improving economy, efficiency and effectiveness	R One significant weakness identified in relation to oversight of an individual capital project. Improvement recommendation raised in relation to Children’s services.	No risks of significant weakness identified.	A No significant weaknesses in arrangements identified, but one improvement recommendation raised in relation to performance monitoring and reporting arrangements.

- G

No significant weaknesses or improvement recommendations.
- A

No significant weaknesses, improvement recommendation(s) made.
- R

Significant weaknesses in arrangements identified and key recommendation(s) made.

Executive Summary

We set out below the key findings from our commentary on the Council’s arrangements in respect of value for money.



Financial sustainability

The Council reported a balanced revenue outturn position for 2025/26 and approved a balanced budget for 2026/27. However, significant financial challenges remain. The Council has set an ambitious savings target for 2026/27 and has experienced challenges in delivering savings in full in previous financial years. Additionally, the Council has estimated a potential cumulative funding gap of £83.4m in the three financial years to 2029/30, which it does not have savings plans to address, threatening financial sustainability in the medium-term. We have raised a key recommendation.

Whilst the Council continues to implement actions to manage the Dedicated Schools Grant (DSG) deficit, this remains a material challenge and we have updated and re-raised our prior year key recommendation on this.

We have also raised an improvement recommendation regarding organisational capacity and capability to deliver the Council’s significant planned transformational and service delivery changes.



Governance

The Council has established governance arrangements in place across key areas including risk management, financial reporting, fraud prevention, standards of conduct and decision-making.

During 2025/26, the Council continued to develop its risk management framework, introduced enhanced risk reporting arrangements and maintained regular oversight of financial and governance matters through Cabinet, Scrutiny and the Audit and Governance Committee.

The Council has also strengthened internal audit arrangements, including strengthened oversight, alignment of the internal audit plan with the corporate risk register, and developing plans to resolve outstanding historic internal audit recommendations.



Improving economy, efficiency and effectiveness

The Council has arrangements in place to monitor performance, evaluate services and support continuous improvement. During 2025/26, it engaged positively with external review processes and demonstrated its ability to translate inspection findings into sustained service improvement, most notably through Children's Services achieving a 'Good' Ofsted rating in January 2026. We have closed our prior year improvement recommendation in relation to this and raised a notable practice insight.

The Council also strengthened its oversight of major projects during the year, and we have closed our prior year key recommendation relating to capital project governance.

We have raised an improvement recommendation to support the Council in strengthening performance monitoring and reporting.

Executive summary – auditor’s other responsibilities

This page summarises our opinion on the Council’s financial statements and sets out whether we have used any of the other powers available to us as the Council’s auditors.

Auditor’s responsibility	2025/26 outcome
Opinion on the Financial Statements	Our audit of your financial statements remains in progress at the time of writing. We expect to issue an unqualified audit opinion on 29 September 2026, following the Audit and Governance Committee. Our findings are set out in further detail on pages 11 to 13.
Use of auditor’s powers	We did not make any written statutory recommendations under Schedule 7 of the Local Audit and Accountability Act 2014. We did not make an application to the Court or issue any Advisory Notices under Section 28 of the Local Audit and Accountability Act 2014. We did not make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014. We did not identify any issues that required us to issue a Public Interest Report (PIR) under Schedule 7 of the Local Audit and Accountability Act 2014.



03 Opinion on the financial statements and use of auditor's powers

Opinion on the financial statements

These pages set out the key findings from our audit of the Council's financial statements, and whether we have used any of the other powers available to us as the Council's auditors.

Audit opinion on the financial statements

We intend to issue an unqualified opinion on the Council's financial statements on 29 September 2026 following the Audit and Governance Committee.

The full opinion will be included in the Council's Annual Report for 2025/26, which can be obtained from the Council's website.

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 2026 and of its expenditure and income for the year then ended
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2025/26
- 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 NAO Code of Audit Practice (2024), and applicable law. We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Findings from the audit of the financial statements

The Council provided draft accounts in line with the national deadline of 30 June 2026.

Draft financial statements were of a good standard and supported by detailed working papers. Our substantive audit testing is now complete. The following items are still to be closed:

- receipt of the final letter of representation
- quality review of the final set of accounts
- receipt of final IAS19 assurance letter from the pension fund auditor

Our audit to date has not identified any adjusted misstatements. All unadjusted misstatements are well below our materiality levels. We have identified a number of non-significant recommendations across several audit areas.

Audit Findings Report

We report the detailed findings from our audit in our Audit Findings Report. A final version of our report will be presented to the Council's Audit and Governance Committee on 29 September 2026. Requests for this Audit Findings Report should be directed to the Council.

Other reporting requirements

Annual Governance Statement

Under the Code of Audit Practice published by the National Audit Office we are required to consider whether the Annual Governance Statement does not comply with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting, or is misleading or inconsistent with the information of which we are aware from our audit.

We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.



Use of auditor's powers

We bring the following matters to your attention:

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

04 Value for Money commentary on arrangements

Value for Money – commentary on arrangements

This page explains how we undertake the value for money assessment of arrangements and provide a commentary under three specified areas.

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. 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 (NAO) Code of Audit Practice ('the Code'), 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 budget management, risk management, and making 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.

Financial sustainability – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	The Council reported a balanced revenue outturn position for 2025/26, against a net revenue budget of £231.5m. This included drawdown of £1.8m from the Budget resilience reserve and the implementation of recovery plan actions during the year in response to key budget pressures including continuing demand and cost pressures in adult social care, temporary accommodation, special educational needs and home to school transport. The Council delivered capital expenditure of £86.0m in 2025/26 against a revised capital programme budget of £113.8m representing an underspend of £27.8m. The Council maintained its general fund balance at £10.1m (4.4% of net revenue expenditure) during 2025/26, consistent with the Council’s policy of keeping the balance between 3 and 5%. The Council set a balanced 2026/27 budget of £234.1m which was approved by Cabinet in February 2026. The 2026/27 budget includes planned use of earmarked reserves of £10.3m and planned savings of £20.0m. We raised a key recommendation in the prior year in relation to the Council's Dedicated Schools Grant (DSG) deficit. We consider that the DSG deficit remains a significant weakness in arrangements and we have updated and re-raised our prior year key recommendation on pages 19-20.	R

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

Financial sustainability – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
plans to bridge its funding gaps and identify achievable savings	The Council has arrangements in place to identify, deliver and monitor savings with detailed savings proposals being presented for approval alongside the annual budget setting process. Savings are monitored as part of the quarterly budget monitoring reports. The Council has failed to deliver its full savings targets in recent years, with £13.2m (84%) delivered in 2025/26 of a £15.8m target. For 2026/27, the Council is planning to deliver savings of £20.0m, representing a significant increase in ambition from 2025/26 delivery. Additionally, it has estimated a potential cumulative funding gap of £83.4m in its medium-term financial strategy (MTFS) to 2029/30, which it does not yet have savings plans to address. We have therefore identified a significant weakness in arrangements to identify and deliver savings to address future funding gaps and have raised a key recommendation on page 21.	R
plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	The Council has a Council Plan 2024-28 which was agreed by Cabinet in May 2024. The plan has four corporate priorities - People, Place, Growth, and Transformation, with specific objectives set for each priority. There is evidence that the Council's budget and medium-term financial strategy for 2026/27 to 2029/30 is aligned with the Council's priorities as set out in the Council Plan.	G

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

Financial sustainability – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
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	The Council's financial plans are aligned with its wider strategic and operational plans, including its workforce, capital and treasury management strategies. There is evidence that financial planning supports delivery of the Council Plan priorities and that wider objectives, including carbon reduction, are considered when developing investment plans. However, the Council is managing a significant programme of transformation, service change and capital investment at a time of ongoing financial pressures and ambitious savings requirements. The Council has also continued to experience capital programme reprofiling and the Local Government Association (LGA) has highlighted the potential impact of capacity and capability constraints on delivery. We have therefore raised an improvement recommendation on page 22 for the Council to review whether organisational capacity and capability remain sufficient to deliver its overall programme of change.	A
identifies and manages risk to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions in underlying plans	Financial risks are clearly articulated in quarterly finance reports and management actions and their impact are explained. The Corporate Risk Register includes finance related risks including demand-based services; major project delivery and delivering a sustainable financial strategy. The register includes the risk appetite, controls and mitigations, and risk scores. Budget setting reports include some sensitivity analysis on the key assumptions, showing the impact of a 1% change on council tax, pay costs, inflation, demand and interest on borrowing. Key financial risks are highlighted, alongside their likelihood and impact and the mitigations in place. The LGA peer challenge which took place in year highlighted the need for the council to provide scenario planning for future years as early as possible and the Council is planning to address this in 2026/27 – we have therefore not raised an improvement recommendation but will follow up to assess progress in 2026/27.	G

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

Financial sustainability (continued)

Significant weakness identified in relation to the Dedicated Schools Grant (DSG) deficit

Key Finding: The Council submitted its Special Educational Needs and Disabilities (SEND) Reform Plan in June 2026 and continues to implement actions to manage the DSG deficit, however, this remains a significant challenge due to the continuing increase in demand for Education, Health and Care Plans (EHCPs) and specialist placements and no confirmed action by central government to address future high-needs funding. The Council’s DSG deficit therefore remains a significant weakness in arrangements due to the size of the deficit comparative to the Council’s reserves and the ongoing uncertainty around how this will be addressed.

Evidence: We raised a key recommendation in our 2024/25 Auditor’s Annual Report in relation to the Council’s significant DSG deficit (see page 37). This deficit has continued to increase in 2025/26. The cumulative deficit rose from £20.0m at 31 March 2025 to £36.3m at 31 March 2026. This is significant relative to the Council’s reserves position at approximately 45% of usable revenue reserves (General Fund and earmarked reserves combined) and is materially greater than the Council’s General Fund balance of £10.1m.

In the 2026/27 financial year, eligible councils can apply for a High Needs Stability Grant covering 90% of DSG deficits accrued to 31 March 2026, subject to Department for Education (DfE) approval of local SEND reform plans. The Council’s SEND reform plan was submitted on 19 June 2026 following engagement with DfE and partners, including Herefordshire and Worcester ICB, Herefordshire Parent Care Voice and the Schools Forum. The Council hopes to receive the full 90% grant following this submission but this is subject to confirmation from DfE later this year.

The historic deficit up to 2025/26 not covered by the High Needs Stability Grant (“the residual deficit”) will remain in an associated statutory reserve (“the unusable reserve”) and will not affect local authorities’ wider financial positions. The Statutory Override will end on 31 March 2028. Therefore, the Council will need to plan to be able to meet the cost of the residual deficit (around £3.6m) from their own resources in 2028/29. The Council expects to be able to meet this cost through reduced borrowing costs following receipt of the High Needs Stability Grant.

Financial sustainability (continued)

Significant weakness identified in relation to the Dedicated Schools Grant (DSG) deficit (continued)

Evidence: For the years 2026/27 and 2027/28 central Government has indicated that further phases of support will be announced, but the form of this support is not yet known. The Council forecasts submitted alongside the SEND reform plan show in-year deficits of £26.0m in 2026/27 and £24.7m in 2027/28, with the main pressure coming from increased demand. EHC plans are forecast to rise from 2,418 in 2026 to 3,842 by 2029.

The 2027/28 forecast deficit includes planned mitigations of £7.6m (original forecast £32.3m), achieved by expanding local capacity for dealing with complex educational needs by increased capital investment in local schools. We have noted risks around the Council’s capacity and capability to deliver change, including its ambitious capital programme, which may pose a risk to the Council’s DSG plans and have raised an improvement recommendation on page 22.

The Council has a DSG Deficit Management Plan in place and reported regularly on DSG through the Schools Forum during 2025/26. Management advised that the Council is planning to bring the SEND reform plan into routine performance reporting to Cabinet to give enhanced oversight in 2026/27.

Impact: If the Council is not able to effectively reduce DSG deficits before 31 March 2028, these may need to be funded from the Council’s own reserves. Reserve levels could reduce to a level putting the medium-term financial sustainability of the Council at risk. We have therefore updated and re-raised our prior year key recommendation.

Key recommendation 1

The Council must continue to implement the Dedicated Schools Grant (DSG) management plan and its new SEND reform plan with the Department for Education and the Schools Forum. It must monitor cost pressures and associated financial risks and report progress to Cabinet and the Schools Forum until the DSG deficit is mitigated and the financial risk to the Council is reduced as far as possible to a sustainable level across the medium-term.



Financial sustainability (continued)

Significant weakness identified in relation to identifying and delivering savings to bridge medium-term funding gaps

Key Finding: The Council has a cumulative funding gap of £83.4m identified in its medium-term financial strategy (MTFS), which it does not yet have plans to address.

Evidence: The Council has failed to deliver its full savings targets in recent years. The Council delivered 56% of £19.5m planned in 2024/25 and we raised an improvement recommendation in relation to savings delivery in our prior year report (see Appendix C). The Council delivered 84% of planned £15.8m savings in 2025/26.

For 2026/27, the Council has set a savings target of £20.0m. This represents a significant increase in ambition from the £13.2m delivered in 2025/26 (52% increase). Early quarter 1 reporting for 2026/27 highlights around £8m of planned savings are identified as at risk.

Additionally, the Council has significant funding gaps in its MTFS from 2027/28 onwards with a cumulative gap of £83.4m from 2027/28 to 2029/30. This has changed significantly from a £5m cumulative gap identified in the prior year MTFS, primarily driven by reductions in expected central government funding. The £83.4m gap assumes delivery of 2026/27 savings in full. Any under-delivery of savings in 2026/27 will further increase the funding gap in future years.

The Council does not yet have any savings proposals developed to address the funding gaps from 2027/28 onwards. The Council is developing a transformation programme which will be a key part of addressing the funding gap, however, this is currently in the very early stages. The Council published a Transformation strategy 2025-28 in April 2025. However, it has since decided to reconsider its approach to transformation and is beginning again with development of a new transformation programme. At the time of our fieldwork, programmes were being scoped, programme governance was in development and no savings target had been attached to the programme. We have identified risks around the Council’s capacity and capability to deliver change and raised an improvement recommendation in relation to this on page 22.

Impact: The Council’s cumulative funding gap is larger than its total usable reserves balance. Therefore, failure to identify and deliver savings to address this gap threatens the Council’s financial sustainability in the medium-term.

Key recommendation 2

The Council must urgently identify and deliver savings plans to address the future funding gaps identified in its MTFS, including by:

- accelerating development of its transformation programme and ensuring it has the appropriate capacity and capability in place to deliver it. The transformation programme should have an identified savings target, structured programme governance, and clear benefits tracking so that the Council can ensure any transformational savings are delivered as planned;
- developing a multi-year rolling savings programme; and
- ensuring it learns lessons from under-delivery of savings in recent years to enable it to deliver the ambitious savings requirement needed to address the cumulative medium-term funding gaps.

Financial sustainability (continued)

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Area for Improvement: Capacity and capability to deliver change

Key Finding: The Council is managing a significant programme of transformation, capital investment and service change, creating increasing demands on organisational capacity and capability.

Evidence: The Council is seeking to deliver a number of major initiatives concurrently, including its new transformation programme, an ambitious multi-year capital programme, implementation of a new operating model for highways, transport infrastructure and other public realm services, and programmes intended to address financial and service pressures in areas such as special educational needs and disabilities (SEND). Many of these programmes are interdependent, with successful delivery of one initiative supporting outcomes in other areas.

The Council continued to experience significant reprofiling within its capital programme, indicating ongoing challenges in delivering planned investment within intended timescales. This is particularly relevant because some of the Council's financial recovery and service improvement objectives are dependent on successful delivery of capital projects and wider organisational change. For example, elements of the Dedicated Schools Grant (DSG) Deficit Management Plan rely on capital investment in additional local education provision.

The June 2025 Local Government Association (LGA) peer challenge highlighted organisational capacity as a key challenge and noted the importance of ensuring sufficient internal capacity and specialist skills are available to support the Council's ambitions.

Impact: A number of the Council's strategic objectives and financial plans are dependent on the successful delivery of major projects, transformation initiatives and service changes over a sustained period. If organisational capacity and capability are not sufficient to support delivery, there is a risk that planned benefits, savings and service improvements will be delayed or not fully realised, placing additional pressure on the Council's financial position and ability to achieve its strategic objectives.

Improvement Recommendation 1

The Council should review whether organisational capacity and capability are sufficient to deliver its overall programme of change.

This should include regular review of resource requirements, specialist skills, project interdependencies and delivery timescales across major transformation initiatives, capital projects, service delivery changes and commercial activities.

Reporting to Members should clearly identify where capacity or capability constraints may affect delivery of planned benefits, savings, service outcomes or financial objectives.

Governance – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	The Council has continued to evolve its approach to risk management, with updated arrangements embedded in year. The Risk Management Strategy was revised in June 2025 and included a risk appetite statement. Quarterly risk management updates have been introduced with reporting to Cabinet and the Audit and Governance Committee, following review by the Corporate Leadership Team. The Council has appropriate year-end reporting arrangements in place with a 'reasonable' head of internal audit opinion issued for 2025/26. The Council has strengthened oversight of internal audit following difficulties with its internal audit relationship which had resulted in a high number of internal audit recommendations outstanding. As at May 2026, there were 29 overdue internal audit recommendations, of which 23 were over 90 days overdue. An annual internal audit plan is in place, aligned with the corporate risk register, and the 2026/27 forward plan includes follow-up audits to resolve the outstanding historic recommendations. We will follow up to assess progress in 2026/27. The Council has adequate arrangements in place in respect of the prevention and detection of fraud, including a Counter Fraud Service. The Council's anti-fraud, bribery and corruption policy was updated in year alongside a corresponding fraud response plan which sets out processes for reporting fraud and how the Council will respond.	G
approaches and carries out its annual budget setting process	The Council has an established budget setting process in place. The budget is a standing item at weekly Corporate Leadership Team meetings and Members receive regular updates and briefings. For example, during 2025/26 Cabinet received an updated mid-year medium-term financial strategy reflecting new information from the outcome of the multi-year settlement from the June 2025 spending review. The budget setting report explains the challenges and developments for each directorate, planned savings, risks and mitigations, consultation and the timeline. The timelines includes Cabinet review of the draft budget, Scrutiny Management Board consideration, further Cabinet review and then full Council. The Council also integrates stakeholder engagement into the budget-setting process through an online consultation seeking input on key areas.	G

- G

No significant weaknesses or improvement recommendations.
- A

No significant weaknesses, improvement recommendations made.
- R

Significant weaknesses in arrangements identified and key recommendation(s) made.

Governance – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships	The Council has established budget monitoring arrangements in place. Quarterly budget reports are presented to Cabinet which support the communication of timely financial information and provide a clear understanding of the Council's financial position including both revenue and capital budgets. Detailed appendices are provided alongside the main budget report, including updates on treasury management and savings delivery. Roles and responsibilities in respect of budgetary control are documented in the Council's financial procedure rules. Our work on the Council's financial statements has not identified any significant concerns regarding financial reporting arrangements.	G
ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency, including from audit committee	Cabinet receives detailed reports that include key financial, legal, and risk information to support decisions. Minutes show members discussing proposals and responding to external findings. Cabinet discussions demonstrate a constructive leadership tone, with evidence of transparency and responsiveness and we did not identify any indicators of inappropriate 'tone from the top'. Scrutiny Committees play a role in reviewing decisions and holding Cabinet to account, with access to information and powers to request officer attendance. The Audit and Governance Committee provides oversight of governance, risk and assurance matters and met regularly throughout the year.	G

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

Governance – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour	The Council has arrangements in place to support compliance with legislative and regulatory requirements and to communicate expected standards of behaviour. Behavioural expectations are set out through the Councillor Code of Conduct and supporting policies, with complaints and conduct matters overseen by the Monitoring Officer and Audit and Governance Committee. No significant breaches of legislation, regulatory failures or material governance issues were reported in year. The Council updated its Contract Procedure Rules in year which set out the framework for ensuring compliance with relevant legislative and regulatory requirements where the Council procures or commissions services.	G

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

Improving economy, efficiency and effectiveness – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
uses financial and performance information to assess performance to identify areas for improvement	The Council has established arrangements in place to monitor and report on performance. Quarterly performance reports are presented to Cabinet with evidence of discussion and challenge. External reviews undertaken during 2025/26 identified issues with the structure and capability of the performance and intelligence team, which the Council has taken steps to address. We also found that transparency arrangements around the performance reporting could be improved and we have raised an improvement recommendation on page 29. The Local Government Association (LGA) peer challenge in year provided an opportunity for the Council to learn from other organisations in the sector and there is evidence that the Council has engaged with this review and made changes as a result. The Council also uses routine benchmarking to benchmark costs and performance against similar bodies and identify areas for improvement.	A
evaluates the services it provides to assess performance and identify areas for improvement	There is clear evidence that inspection findings are translated into structured improvement plans with appropriate governance, ownership and monitoring arrangements. The significant improvement in Children's Services, where the statutory direction has now been removed following a 'Good' Ofsted rating in January 2026, demonstrates the effectiveness of these arrangements in driving sustained service improvement. This allows us to step down the prior year improvement recommendation in this area (see Appendix C), and we have raised a good practice insight on the Council's approach to improving children's services on page 31. Whilst Adult Social Care received a 'Requires Improvement' rating during the reporting year, the Council was able to demonstrate effective insight into its position ahead of the Care Quality Commission (CQC) inspection and, in response to the findings, a comprehensive improvement plan has been established with appropriate governance arrangements in place.	G

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

Improving economy, efficiency and effectiveness – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
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	The Council has established arrangements to engage stakeholders and partners in the development and delivery of its strategic priorities, supported by partnership governance arrangements and periodic review mechanisms. The LGA peer challenge identified partnership working as a strength, highlighting positive feedback regarding the Council's leadership, collaborative approach and engagement in key strategic partnerships. During the year, the Council continued to work with partners in developing and delivering key strategies and developed its approach to engagement with the voluntary, community, faith and social enterprise (VCSE) sector. Cabinet receives updates on significant partnership activity through the quarterly performance reporting process, providing oversight of delivery, risks and progress against Council objectives. Whilst reporting provides assurance over major partnership-supported programmes and initiatives, as highlighted in our prior year reporting, there remains limited evidence of systematic performance reporting across the full portfolio of strategic partnerships. However, we have not raised an improvement recommendation in this area as the Council's arrangements provide reasonable assurance that partnership activity is aligned with strategic priorities and subject to ongoing oversight.	G

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

Improving economy, efficiency and effectiveness – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
commissions or procures services, assessing whether it is realising the expected benefits	The Council has arrangements in place to manage and review commissioned services and contracts, with evidence that significant contracts are periodically reassessed to ensure they remain aligned to strategic objectives and deliver value for money. During 2025/26, the Council approved a new public realm services contract, which governs the delivery of highways, transport infrastructure and related public space services across the county. The new operating model brings a number of functions back under direct Council control, including highways inspections, asset management and contract monitoring, with the aim of providing greater oversight of service delivery and investment decisions. The Council considered alternative delivery options, risks, benefits and implementation arrangements before approving the changes, supported by external legal and technical advice. In our prior year report, we raised a key recommendation relating to governance and oversight arrangements for an individual capital project. During 2025/26, the Council strengthened its arrangements for overseeing major projects through the introduction of a major projects dashboard and risk register, overseen by the Corporate Leadership Team. We did not identify any similar concerns in our 2025/26 review and we have therefore closed our prior year recommendation (see follow up of prior year key recommendations on pages 36-38).	G

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

Improving economy, efficiency and effectiveness (continued)

Area for Improvement: performance monitoring and reporting

Key Finding: The Council's performance management arrangements have improved during 2025/26; however, further work is required to strengthen the capacity and capability of the performance and intelligence function and to improve the transparency of performance reporting.

Evidence: The Council commissioned an external review of its digital and transformation capability, which reported in October 2025, and identified concerns regarding the structure and capability of the Corporate Performance and Intelligence Team. The Council has recognised these issues and has demonstrated a proactive approach by commissioning an external review and developing plans to strengthen arrangements. For example, management advised that the team has since been restructured with specialist leadership posts introduced, and job descriptions have been reviewed to align with service demand.

The June 2025 LGA peer challenge also identified opportunities to strengthen the Council's use of data and insight to support decision-making. A subsequent progress review in May 2026 recognised positive progress in developing performance management arrangements but concluded that further work was required to build the capacity, capability and analytical maturity needed to consistently translate performance data into actionable insights that improve services and outcomes.

In addition, we identified opportunities to improve the transparency of performance reporting. Whilst the Corporate Leadership Team receives detailed directorate performance reports, including explanations of underperformance and associated improvement actions, areas of underperformance were not consistently reported through the public quarterly performance reports presented to Cabinet. Management advised that there are additional reporting mechanisms to update Cabinet on performance including Cabinet Member briefings and scrutiny reporting. However, we found that there is limited public visibility of some performance issues and the actions being taken to address them through the quarterly performance reports.

Impact: Robust performance management arrangements are important to ensure that decision-makers can identify emerging issues, understand the causes of underperformance and take timely corrective action. Improving the capability of the performance and intelligence function, alongside more transparent reporting of underperformance and mitigating actions, would strengthen accountability and enable more effective scrutiny and challenge by both Cabinet and the public.

Improvement Recommendation 2

The Council should improve its performance monitoring and reporting arrangements by:

- continuing to periodically review arrangements to ensure the issues identified by external reviews have been addressed and improvements are embedded sustainably; and
- ensuring that areas of underperformance are reported transparently to allow for appropriate scrutiny and challenge from both Cabinet and the public. Reporting should explain the reasons for underperformance and include details of mitigating actions being taken.

Grant Thornton insights – notable practice

The Council has notable arrangements for delivering sustainable improvement in children's services following a previous 'inadequate' external inspection.

What the Council is doing well

- The Council developed a comprehensive quality assurance framework which measures not only whether improvement actions have been completed, but also whether they are having the intended impact on outcomes for children and families.
- Leaders use a combination of performance information, case audits, feedback from children and families and self-assessment activity to develop an accurate understanding of both service strengths and areas requiring improvement.
- The Council responded to inspection findings by developing an improvement plan that went beyond the areas identified by inspectors, incorporating additional actions identified through its own self-assessment processes.

What is the impact?

- Ofsted highlighted the Council's ability to accurately understand service performance and the impact of improvement activity, providing assurance that improvement efforts are targeted at the right issues.
- The Council's approach has supported sustained improvement, with Children's Services improving from an overall rating of 'Inadequate' in 2022 to 'Good' in 2026, and leadership being rated 'Outstanding'.
- Regulatory confidence in the Council's embedded quality assurance and performance management arrangements enabled the Children's Multi-Agency Improvement Board to be stepped down, demonstrating increased organisational maturity and ownership of improvement.



05 Summary of Value for Money Recommendations raised in 2025/26

Key recommendations raised in 2025/26

Recommendation		Relates to	Management Actions
284	KR1	The Council must continue to implement the Dedicated Schools Grant (DSG) management plan and its new SEND reform plan with the Department for Education and the Schools Forum. It must monitor cost pressures and associated financial risks and report progress to Cabinet and the Schools Forum until the DSG deficit is mitigated and the financial risk to the Council is reduced as far as possible to a sustainable level across the medium-term.	Financial sustainability Actions: The council submitted its Local SEND Reform Plan to the Department for Education (DfE) on 19 June 2026. Subject to DfE approval, the Plan will evidence eligibility for the High Needs Stability Grant to cover approx. £32.7 million (90%), with the remaining balance of £3.6 million (10%) to be a liability of the council once the statutory override period ends in March 2028. The financial impact of identified mitigations and preventative activity will be monitored and reported throughout the year as part of the council’s routine financial monitoring of the revenue budget and delivery of the capital programme, reported quarterly to Cabinet and Schools Forum. The Council will continue to work with schools, education providers and the DfE to support the management of cost pressures in the High Needs Block. Arrangements will remain in place until the DSG deficit is mitigated and the associated financial risk to the council has been reduced to a sustainable medium-term level. Responsible Officer: Director of Children & Young People/Director of Finance (S151 Officer) Due Date: This activity will continue throughout 2026/27 as part of monitoring arrangements between Education and Finance teams.

Key recommendations raised in 2025/26

Recommendation	Relates to	Management Actions
285 KR2 The Council must urgently identify and deliver savings plans to address the future funding gaps identified in its MTFS, including by: • accelerating development of its transformation programme and ensuring it has the appropriate capacity and capability in place to deliver it. The transformation programme should have an identified savings target, structured programme governance, and clear benefits tracking so that the Council can ensure any transformational savings are delivered as planned; • developing a multi-year rolling savings programme; and • ensuring it learns lessons from under-delivery of savings in recent years to enable it to deliver the ambitious savings requirement needed to address the cumulative medium-term funding gaps.	Financial sustainability	Actions: The Council has made significant progress in the current financial year (2026/27) in the delivery of approved savings and brought forward savings targets. At Quarter 1 (June 2026), £7.8m (34%) of the combined in-year and brought forward savings target of £22.7m have been delivered. Directorate Saving Boards are in place to monitor and challenge in-year progress, and we continue to review the delivery of savings as part of routine monthly budget monitoring arrangements through Directorate Budget Boards, Corporate Leadership Team, Cabinet Member Briefings and Cabinet. In parallel, the Council is refocusing and accelerating its transformation approach through the development of a new One Council Transformation Plan 2026-2030, which will provide a single corporate framework for transformation activity across the organisation. The plan is being supported by a refreshed governance structure, including a reconfigured corporate Transformation Board and the establishment of a Transformation Management Office to provide programme oversight, benefits realisation, performance reporting, risk management and delivery assurance. As part of this work, the Council will develop a rolling multi-year transformation and savings programme aligned to the Medium Term Financial Strategy, with identified savings targets, clear ownership, measurable outcomes and benefits tracking arrangements. Transformation initiatives will be prioritised according to their contribution to customer outcomes, service performance and financial sustainability. The Council is also reviewing the factors that have contributed to the under-delivery of savings in previous years to ensure lessons learned are embedded within programme design, governance, challenge and monitoring arrangements, strengthening confidence in the deliverability of future savings plans. Responsible Officer: Corporate Leadership Team Due Date: 31 March 2027

Improvement recommendations raised in 2025/26

286

	Recommendation	Relates to	Management Actions
IR1	The Council should review whether organisational capacity and capability are sufficient to deliver its overall programme of change. This should include regular review of resource requirements, specialist skills, project interdependencies and delivery timescales across major transformation initiatives, capital projects, service delivery changes and commercial activities. Reporting to Members should clearly identify where capacity or capability constraints may affect delivery of planned benefits, savings, service outcomes or financial objectives.	Financial sustainability	Actions: Progress in the delivery of major and capital projects is reported via a monthly Delivery Dashboard to Cabinet and through quarterly monitoring of the Capital Programme and Delivery Plan. A Major Projects Oversight Programme Board has been established in 2026/27, chaired by the Chief Executive, to strengthen oversight of major and capital projects. This activity highlights risks and ensures barriers to delivery can be resolved. The development of budget proposals, capital programme additions and transformation activity for 2027/28 and beyond will consider interdependencies, resource requirements and impact on service delivery and outcomes. Where major and capital projects require specialist skills, additional external resource will be commissioned to undertake time limited, bespoke project roles. The Council will keep under review the organisational capacity, specialist skills and resource requirements necessary to deliver its major projects, transformation activity and capital programme, escalating any significant constraints through established governance arrangements. Member reporting will continue to identify material capacity, capability, resource or delivery risks that may affect the achievement of planned benefits, savings, service outcomes or financial objectives. Responsible Officer: Corporate Leadership Team Due Date: 31 March 2027

Improvement recommendations raised in 2025/26

Recommendation		Relates to	Management Actions
IR2	The Council should improve its performance monitoring and reporting arrangements by: • continuing to periodically review arrangements to ensure the issues identified by external reviews have been addressed and improvements are embedded sustainably; and • ensuring that areas of underperformance are reported transparently to allow for appropriate scrutiny and challenge from both Cabinet and the public. Reporting should explain the reasons for underperformance and include details of mitigating actions being taken.	Improvement economy, efficiency and effectiveness	Actions: The Council will review performance monitoring and reporting arrangements in 2026/27 to identify areas to strengthen the information reported to Cabinet and residents. Responsible Officer: Corporate Leadership Team Due Date: 31 March 2027

06 Follow up of previous Key recommendations

Follow up of 2024/25 Key recommendations

Prior Recommendation		Raised	Progress	Current status	Further action
289	KR1	2024/25	The Council has continued to implement its DSG Deficit Management Plan and maintained regular oversight of the DSG position through the Schools Forum and Budget Working Group during 2025/26. The Council has also worked with the Department for Education and partners to develop and submit a SEND reform plan, which may provide access to additional government support through the High Needs Stability Grant.	In progress	Key recommendation updated and re-raised – see KR1.
			However, the DSG deficit increased significantly during 2025/26, rising from £20.0m to £36.3m, and the Council continues to forecast substantial future in-year deficits driven by increasing demand. Whilst arrangements are in place to monitor the position and develop recovery plans, the DSG deficit remains a significant financial risk and a key challenge for the Council. Accordingly, we have updated and re-raised this recommendation for 2025/26.		

Follow up of 2024/25 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
KR2	The Council should improve its governance and oversight of capital programme procurement decisions by ensuring that the actions it has identified are implemented and embedded and lessons learned. In particular, the Council needs to monitor the new arrangements to ensure that they are effective. This includes the Major Projects Forum and Corporate Services Gateway Board.	2024/25	During 2025/26, the Council strengthened its oversight of major projects through the introduction of enhanced monitoring arrangements, including a major projects dashboard and risk register overseen by the Corporate Leadership Team. We did not identify any similar procurement governance concerns during our 2025/26 review and have therefore concluded that the issues identified in the prior year related to an isolated incident rather than a wider weakness in arrangements.	Closed	No further action required

07 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 Council's Director of Finance is responsible for preparing the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance is required to comply with CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Director of Finance 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: Value for Money Auditor responsibilities

Our work is risk-based and focused on providing a commentary assessment of the Council’s Value for Money arrangements

Phase 1 – Planning and initial risk assessment

As part of our planning, we assess our knowledge of the Council’s arrangements and whether we consider there are any indications of risks of significant weakness. This is done against each of the reporting criteria and continues throughout the reporting period.

Phase 2 – Additional risk-based procedures and evaluation

Where we identify risks of significant weakness in arrangements, we will undertake further work to understand whether there are significant weaknesses. We use auditor’s professional judgement in assessing whether there is a significant weakness in arrangements and ensure that we consider any further guidance issued by the NAO.

Phase 3 – Reporting our commentary and recommendations

The Code requires us to provide a commentary on your arrangements which is detailed within this report. Where we identify weaknesses in arrangements we raise recommendations.

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

Statutory recommendations – recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.

Key recommendations – the actions which should be taken by the Council where significant weaknesses are identified within arrangements.

Improvement recommendations – actions which are not a result of us identifying significant weaknesses in the Council’s arrangements, but which if not addressed could increase the risk of a significant weakness in the future.

Information that informs our ongoing risk assessment

Cumulative knowledge of arrangements from the prior year	Key performance and risk management information reported to the Executive or full Council
Interviews and discussions with key stakeholders	External review such as by the LGA, CIPFA, or Local Government Ombudsman
Progress with implementing recommendations	Regulatory inspections such as from Ofsted and CQC
Findings from our opinion audit	Annual Governance Statement including the Head of Internal Audit annual opinion

Appendix C: Follow up of 2024/25 improvement recommendations

	Prior Recommendation	Raised	Progress	Current Status	Further action
294	IR1 In order to ensure that any future Council-wide savings programmes are delivered as planned it needs to ensure that it learns the lessons from the under-delivery of such schemes in 2024/25.	2024/25	The Council has continued to monitor and report savings delivery; however, savings targets were again not fully achieved during 2025/26 and the Council faces significantly larger savings requirements and unresolved funding gaps within its Medium-Term Financial Strategy. As a result, this recommendation has been superseded by a broader 2025/26 key recommendation relating to the identification and delivery of savings required to support the Council’s medium-term financial sustainability.	Superseded	Superseded by KR2.
	IR2 The Council should continue to work with the Department for Education to address the remaining high-risk areas in Children’s Social Care Services. This should focus on improving workforce stability to reduce agency reliance, increasing placement sufficiency, and strengthening consistency of supervision to ensure sustained service quality.	2024/25	The Council has demonstrated significant and sustained improvement in Children’s Services since the recommendation was raised. Children’s Services achieved an overall 'Good' Ofsted rating in January 2026, with the impact of leaders on social work practice judged 'Outstanding', reflecting the effectiveness of the Council's improvement arrangements and leadership. The subsequent decision to step down the Children's Multi-Agency Improvement Board provides further evidence of confidence in the Council's governance, quality assurance and performance management arrangements. We have therefore closed this recommendation and highlighted the Council's approach to driving and sustaining improvement as an area of notable practice on page 30.	Closed	No further action required.



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Title of report: Internal audit update report Q2 2026/27

Meeting: Audit and Governance Committee

Meeting date: Tuesday 29 September 2026

Report by: Director of Finance/Head of Internal Audit

Classification

Open

Decision type

This is not an executive decision

Wards affected

All Wards

Purpose

To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.

To assure the committee that action is being taken on risk related issues identified by internal audit. This is monitored through acceptance of agreed management actions and progress updates in implementing the action plans. In addition, occasions where audit actions not accepted by management are documented if it is considered that the course of action proposed by management presents a risk in terms of the effectiveness of or compliance with the council's control environment.

Recommendation(s)

That:

- a) reviews the areas of activity and concern to be satisfied that necessary improvements are outlined and delivered; and
- b) notes the report and consider the assurances provided and the recommendations which the report makes, commenting on its content as necessary.

Alternative options

1. There are no alternative recommendations; it is a function of the committee to consider these matters in fulfilling its assurance role.

Key considerations

2. The Committee should consider the report to gain assurance that, from the work undertaken by internal audit, the Council have a robust internal control environment that effectively manages risk.
3. The internal audit progress report is attached at Appendix A. A report listing all open agreed actions can be found at Appendix B.

Community impact

4. The council's code of corporate governance commits the council to managing risks and performance through robust internal control and strong public financial management and to implementing good practices in transparency, reporting, and audit to deliver effective accountability. By ensuring robust management responses to identified risks, the council will be better able to meet priorities outlined in The Herefordshire Council Plan 2024-2028.

Environmental impact

5. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
6. Whilst this is a report for information and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

Equality duty

7. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations, and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services.
8. The mandatory equality impact screening checklist has been completed for this activity and it has been found to have no impact for equality.

Resource implications

9. There are no specific resource implications from the report itself.

Legal implications

10. There are no specific legal implications arising from this report itself.

Risk management

11. There is a risk that the level of work required to give an opinion on the council's systems of internal control is not achieved. This is mitigated by the regular active management and monitoring of the programme of internal audit work, and subsequent coverage assessments.
12. Risks identified by internal audit are mitigated by actions proposed by management in response. Progress on implementation of agreed actions is now reported to this committee as part of the internal audit progress reports.

Consultees

13. None.

Appendices

Appendix A SWAP Internal Audit Progress Report 2026-27

Appendix B Open Agreed Actions

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Background papers

None.

Herefordshire Council

Report of Internal Audit Activity

September 2026

Contents

The contacts at SWAP in connection with this report are:

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- Contents:

Internal Audit Definitions

Audit Plan Progress

Finalised Audit Assignments

Internal Audit Definitions

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- No
- Limited
- Reasonable
- Substantial



Audit Framework Definitions

Control Assurance Definitions

No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Non-Opinion – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Internal Audit Definitions

Recommendations are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.



Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

	Categorisation of Recommendations
Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management
Priority 3	Finding that requires attention.

Definitions of Risk

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Audit Plan Progress 2026/27

Audit Type	Directorate	Audit Area	Status	Opinion	No of Agreed Actions	Priority			Comment
						1	2	3	
Follow-Up	Community Wellbeing	Court of Protection (2025/26)	Final Report	Low Reasonable	4	-	3	1	Reported in July
Core Financial	Corporate Services	Payroll (2025/26)	Final Report	Low Reasonable	6	-	1	5	Reported in July
Operational	Economy and Environment	Licensing – TENS (2025/26)	Final Report	High Reasonable	1	-	1	-	Reported in July
Follow-Up	Economy and Environment	Transport Hub (2026/27)	Final Report	N/A	0	-	-	-	Report Included
Core Financial	Corporate Services	Treasury Management (2025/26)	Final Report	Low Substantial	2	-	-	2	Report Included
Operational	Economy and Environment	Public Protection (2025/26)	Final Report	High Reasonable	3	-	-	3	Report Included
Core Financial	Corporate Services	Accounts Receivable (2025/26)	Draft Report						
Operational	Community Wellbeing	Emergency Planning (2025/26)	In Progress						
Follow-Up	Children and Young People	Foster Care Follow Up (2025/26)	In Progress						
Operational	Corporate Services	Crisis Resilience Fund (2026/27)	In Progress						
Operational	Economy and Environment	Public Realm Change Management (2026/27)	In Progress						
Operational	Children and Young People	Schools in Deficit	Ready to Start						
Operational	Community Wellbeing	Adults Social Care Payments							Waiting for confirmation of audit

Audit Plan Progress 2026/27

Audit Type	Directorate	Audit Area	Status	Opinion	No of Agreed Actions	Priority			Comment
						1	2	3	
Core Financial	Corporate Services	NNDR	Ready to Start						
Core Financial	Corporate Services	Council Tax							
Core Financial	Corporate Services	Housing Benefits							
Follow-Up	Corporate Services	Decision Making and Project Governance (City Heart) (2025/26)	Complete						Initial meeting held with CFO. Due to EA review, agreed with CFO, following discussion and evidence supplied, audit not required.
Grant Certification	Corporate Services	Local Transport Capital Block Funding Grant	Complete						
Core Financial	Corporate Services	Schools Payroll (2026/27)	Deleted						Audit not Required
Operational	Economy and Environment	Section 106s (2025/26)	Deferred						Audit deferred due to System Implementation and Changes within Service
Operational	Community Wellbeing	Direct Payments (2025/26)	Deferred						Has been suggested we review Adults Social Care Payments

Audit Plan Progress 2026/27

Audit Type	Directorate	Audit Area	Status	Opinion	No of Agreed Actions	Priority			Comment
						1	2	3	
Follow-Up		Follow-Up of Agreed Actions (not included in an audit above)	On Going						
Other Audit Involvement		Management of the IA Function and Client Support	On Going						
Other Audit Involvement		Contingency – Provision for New Work based on emerging risks							

Action Tracking

Action Tracking

There are currently 50 open agreed actions for Herefordshire Council.

39 of the open actions are historic and include:

- 6 for All Ages Commissioning – Use of Spot Purchasing (2024/25)
- 10 for Foster Care Placements (2024/25)

These actions will be followed during the audits planned in 2026/27

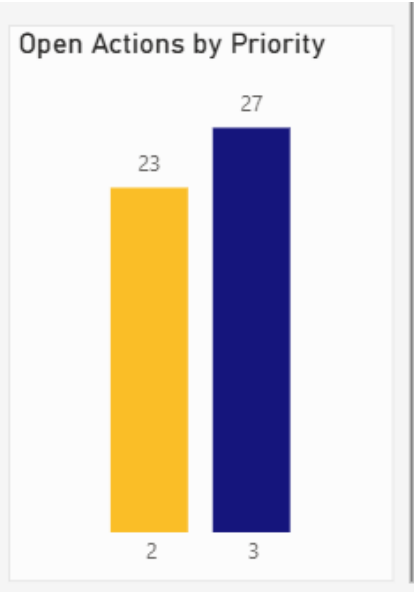
We have closed 5 of the 2025/26 actions, leaving 18 actions open.

We have raised 16 actions in the audits concluded during 2026/27.

All open actions are either priority 2 or 3, it is pleasing to note there are no priority 1s.

Work will continue to gain an update from responsible officers, and report updates to this Committee.

Any actions not remediated, will be discussed with officers and where appropriate, a revised timescale agreed.



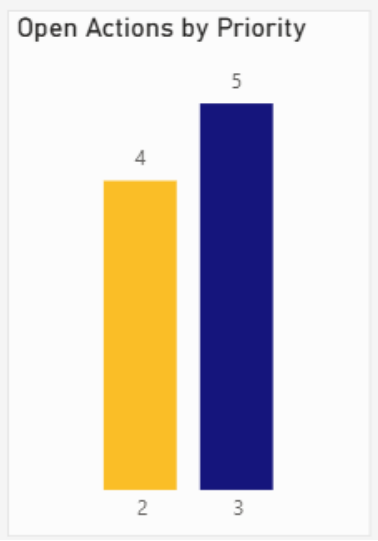
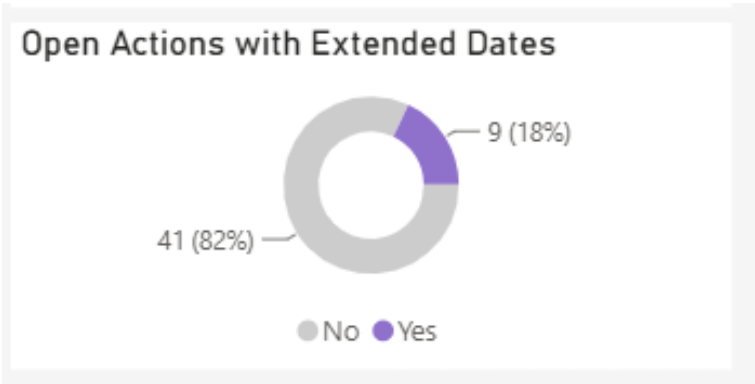
Open Agreed Actions, by due date, are shown below.

Not yet due	Due within 30 days	1-30 days overdue	31-60 days overdue	61-90 days overdue	91+ days overdue	Total Actions
17	4	7	1	(Blank)	21	50

Action Tracking

- Action Tracking – Revised Timescales

Open Agreed Actions, with a revised timescale has increased to 9 from 6



The following are the Internal Audit reports, of each audit review finalised,
since the last Committee update

#

**Finding 6 – Project Management – Review of Decisions Register – Complete**

The original project schedule is available to ensure progress can be measured. Decision registers have been updated and include key information including reasons for the decisions and links to core objectives and risks. The data log lists the officers and the actions they have taken e.g. responded, decision made etc.

**Finding 7 – Software Management – Verto – Complete**

An officer has been made responsible for the Verto system. Discussions have taken place and the contract for Verto has been extended to 2027. Verto remains the Council's system of choice for tracking major projects.

Conclusion

Our review found that good progress has been made to mitigate the weaknesses identified in our 2025/26 Transport Hub audit. However, a key area that needs further review is to ensure that regular and timely reconciliation between service area systems, i.e. Cemar and Verto and the Council's main financial system, Business World. This is important because budget monitoring is a key control which if not undertaken effectively could potentially result in project overspends, which are then hard to recover.

Treasury Management – Final Report – May 2026

Audit Objective

To provide assurance that key controls for Treasury Management are operating effectively and that treasury management arrangements are compliant with statutory regulations.

Executive Summary



Assurance Opinion

The review confirmed a sound system of governance, risk management and control, with internal controls operating effectively and being consistently applied to support the achievement of objectives.

Management Actions

Priority 1	0
Priority 2	0
Priority 3	2
Total	2

Organisational Risk Assessment

Low

Our audit work includes areas that we consider have a low organisational risk and potential impact.

Key Conclusions

Audit Scope



We understand Treasury Management (TM) training is offered when there is a new cohort of members or when there is sufficient interest. However, it is important to ensure those charged with TM, governance and scrutiny responsibilities are sufficiently skilled to effectively undertake their responsibilities as per The Treasury Code 2021 and the TM Practice Statement 10. Our review found TM training was last provided to Members in January 2024, and attendee records were not maintained. We suggest training should be provided at least annually to ensure new Members are trained in a timely manner and existing Members refresh their knowledge and skills. Records must also be maintained to provide assurances that Members are suitably skilled.



Review and approval of reconciliation processes are not in accordance with relevant procedure guidelines which were last reviewed in 2018 and 2020. If financial reconciliations are not independently reviewed or are only discussed verbally by exception, there is an increased risk that inaccuracies, control breaches, or emerging issues may not be identified.

The audit reviewed the following:

- Approval and review of the Treasury Management Strategy;
- Compliance of investments and loans with the Treasury Management Strategy including process for when a breach occurs;
- Cashflow forecasting and monitoring alongside BACS payment controls;
- Recording and reconciliation of transactions ensuring adequate separation of duties;
- Effectiveness of risk management practices including identification, measurement and mitigation of financial and ethical investment risks;



We confirm the following areas of good practice:

- The Treasury Management Strategy 2025/26 was approved by Council in February 2025.
- Investments and loans activity is in accordance with the Treasury Management Strategy and appropriately approved.
- Cashflow monitoring processes are sound; management have agreed to formalise administrative notes to ensure activity can continue in case of officer absence.
- There is separation of duties, but as reported above, verbal discussions do not provide evidence in case of challenge.
- Financial and ethical investments are discussed, and risk assessments undertaken.
- Quarterly reports are provided to Cabinet which include TM Outturn data.
- Prudential Indicators are included in the TM Strategy as per the Prudential Code 2021 and are used to direct how the Council wishes to operate.

- Reporting of activity to senior management and committee(s) as well as performance monitoring against indicators;

Other Relevant Information

Generally, sound processes are operated within Treasury Management activities. We did note some areas for consideration, which if introduced would improve the current control environment:

- Minor administrative errors within procedural guidance which management agreed to address;
- Records management of historic loans could be improved. There were several loans where evidence of approval was not in place.
- Consideration could be given to including specific legislation in the Treasury Management Practice Statements, e.g. TMP1 – Fraud, Error, Corruption and Contingency Management could include reference to the Economic Crime and Corporate Transparency Act 2023.
- Given the heavy reliance on Excel spreadsheets, consideration should be given to using the latest version of Excel. The current version used (which is an inherited spreadsheet) does not provide enough capacity and has led to data being duplicated.

Public Protection – Final Report – August 2026

Audit Objective To provide assurance over the administration of the environmental complaints process.

Executive Summary

	Assurance Opinion	Management Actions		Organisational Risk Assessment	Low
	The review highlighted a generally sound system of governance, risk management and control in place. We identified some issues, non-compliance or scope for improvement which may put at risk the achievement of objectives in the area audited.	Priority 1	0	Our audit work includes areas that we consider have a low organisational risk and potential impact.	
		Priority 2	0		
		Priority 3	3		
		Total	3		

Key Conclusions

		Audit Scope	
	A review of the new Nuisance and Anti-Social Behaviour procedure introduced in December 2025, was found to be clear with defined workflows and strong legislative context supporting case handling. However, defined training or set competency frameworks for staff is missing. Lack of training creates the risk that the procedure is not applied consistently in practice.	The original agreed audit scope was to cover all environmental complaints processes, but during further discussions with management as part of initial work, the scope was specified to just the Nuisance and Anti-Social Behaviour area. The audit primarily reviewed whether nuisance cases are managed in line with the procedure introduced in December 2025, focusing on response timeliness and the quality of case records. This review is timely ahead of the services transition to Arcus system later in 2026/27. While centred on the revised procedure, some testing extended to longer-running and historic open cases (including those over 180 days) to assess whether they remained appropriate to keep open. Analysis also included cases received and closed within the last six months,	
	The Environmental Health Directorate initial response Key Performance Indicators (KPI), 5 working days 85% and 10 working days 98%, are combined and reported on as a collective service, with current figures showing comfortably over target. As requested, audit reperformed the Nuisance and Anti-Social Behaviour specific response data for the period December 2025 onwards, with results highlighting that targets were not being consistently met. Of the 110 cases reviewed, 5-day responses were 81.83% (90 cases) and 10 days 83.64% (92 cases). In addition to this, 12.73% (14 cases) of cases had no responses and 1.82% (2 cases) were more than 20 days. It would be beneficial for the service area KPI's to be individually analysed and reported.		
	Case sampling highlighted a weakness in the administration of the case management system. Cases are not always formally closed; case actions are not raised to ensure follow up or review in a timely manner with key fields not being populated to aid reporting/monitoring. This reduces visibility over case status, limits effective oversight, and contributes to underperformance against KPIs.		



Case records show that work is generally undertaken and appropriately documented. However, there is limited evidence of consistent oversight and review across all cases. While supervision may be taking place, this is not consistently evidenced within case records. This reduces assurance that cases are managed consistently and that decisions are appropriately supported and reviewed.

alongside performance data to assess trends following implementation.

The audit considered whether:

- complaints are managed in line with guidance, procedures, and timescales; and
- records are appropriately maintained and updated.



Testing identified a case with potential safeguarding concerns where there was no evidence that these were assessed, documented, or referred. Management advised that such issues would normally be referred appropriately. However, due to the initial validity and nature of information in initial complaints, reports to the corporate safeguarding team are not always escalated. As safeguarding is a corporate responsibility, it is essential for the service to have reporting and recording mechanisms in place to demonstrate compliance and evidence if needed.

Other Relevant Information

The procedure document was noted to be missing basic governance control, including document ownership, version control, and review details, which reduce overall clarity and accountability.

A small number of minor data quality issues were identified, including cases without a target address or response date, as well as some potential duplicate records. In addition, the closure reason field is not populated, representing a missed opportunity to capture valuable management information and strengthen performance insight.

Open Agreed Actions – September 2026

ID (Action Plan)	ID (Issue)	Audit Title	Title	Issue Status	Period	Priority Score	Original Timescale	Timescale	Follow-Up Assessment
5536	5186	HC All Ages Commissioning - Use of Spot Purchasing Non Accommodation Activity	Monitoring and Reporting of Non-Accommodation Spot Purchase Activity	Pending Remediation	2024/25	2	30/09/2025		August 2026: Follow-Up in Progress
5537	5187	HC All Ages Commissioning - Use of Spot Purchasing Non Accommodation Activity	Process for Sourcing Provision/Services	Pending Remediation	2024/25	2	31/07/2025	31/10/2025	August 2026: Follow-Up in Progress
5538	5188	HC All Ages Commissioning - Use of Spot Purchasing Non Accommodation Activity	Framework Provision/Monitoring	Pending Remediation	2024/25	2	30/09/2025	31/10/2025	August 2026: Follow-Up in Progress
5539	5189	HC All Ages Commissioning - Use of Spot Purchasing Non Accommodation Activity	Resources	Pending Remediation	2024/25	3	30/09/2025	31/10/2025	August 2026: Follow-Up in Progress
5720	5186	HC All Ages Commissioning - Use of Spot Purchasing Non Accommodation Activity	Monitoring and Reporting of Non-Accommodation Spot Purchase Activity	Pending Remediation	2024/25	2	31/07/2025	31/10/2025	August 2026: Follow-Up in Progress
5721	5366	HC All Ages Commissioning - Use of Spot Purchasing Non Accommodation Activity	Identification of suppliers for therapeutic services	Pending Remediation	2024/25	3	28/02/2025	31/10/2025	August 2026: Follow-Up in Progress
2818	2627	HC Foster Care Placements	13. Mosaic Training	Pending Remediation	2024/25	2	30/09/2024		August 2026: Follow-Up Audit in Progress
2835	2644	HC Foster Care Placements	14. Mosaic System Champions	Pending Remediation	2024/25	3	30/09/2024		August 2026: Follow-Up Audit in Progress
2842	2651	HC Foster Care Placements	6. Procedures and Guidance for external foster care providers	Pending Remediation	2024/25	3	31/03/2025		August 2026: Follow-Up Audit in Progress
2890	2695	HC Foster Care Placements	3. External placement purchase orders with no end date and no breakdown.	Pending Remediation	2024/25	2	30/09/2024		August 2026: Follow-Up Audit in Progress
2904	2709	HC Foster Care Placements	2. Internal Foster Carer's Procedures within the Transaction team	Pending Remediation	2024/25	3	30/09/2024		August 2026: Follow-Up Audit in Progress
2913	2718	HC Foster Care Placements	1. Purchase orders not on Mosaic for internal foster care placements	Pending Remediation	2024/25	2	31/01/2025		August 2026: Follow-Up Audit in Progress
2925	2729	HC Foster Care Placements	8. Data Quality	Pending Remediation	2024/25	2	25/01/2025		August 2026: Follow-Up Audit in Progress
2928	2732	HC Foster Care Placements	11. Placement audits	Pending Remediation	2024/25	3	30/09/2024	31/03/2025	August 2026: Follow-Up Audit in Progress
2937	2741	HC Foster Care Placements	9. Mosaic Workflow	Pending Remediation	2024/25	2	31/03/2025		August 2026: Follow-Up Audit in Progress
2940	2744	HC Foster Care Placements	10. Record management of System Changes	Pending Remediation	2024/25	3	18/01/2024		August 2026: Follow-Up Audit in Progress

ID (Action Plan)	ID (Issue)	Audit Title	Title	Issue Status	Period	Priority Score	Original Timescale	Timescale	Follow-Up Assessment
6600	6182	HC Public Rights of Way (PROW) 2024/25	Enhance service KPI monitoring and reporting	Pending Remediation	2024/25	2	30/11/2025	31/12/2026	Not Due
6649	6230	HC Public Rights of Way (PROW) 2024/25	Continued Service Development	Pending Remediation	2024/25	3	31/03/2026	31/12/2026	Not Due
6302	5908	HC VfM Assessment Public Realm	Consideration of Lessons Learnt	Pending Remediation	2024/25	3	31/12/2025		August 2026: Will be Followed-Up during Current Audit of Public Realm
6303	5909	HC VfM Assessment Public Realm	Embedding of the Corporate VfM Strategy	Pending Remediation	2024/25	2	31/12/2025		August 2026: Will be Followed-Up during Current Audit of Public Realm
6304	5910	HC VfM Assessment Public Realm	Clarity on Route to Procurement to achieve VfM	Pending Remediation	2024/25	3	31/12/2025		August 2026: Will be Followed-Up during Current Audit of Public Realm
8819	8276	HC Bank Reconciliation 2025/26	Procedure Documentation	Pending Remediation	2025/26	3	31/07/2026		August 2026: Will be Followed-Up during Annual Audit
7627	7149	HC Council Tax 2025/26	Written Procedures	Pending Remediation	2025/26	3	31/03/2027		August 2026: Will be Followed-Up during Annual Audit
7631	7153	HC Council Tax 2025/26	Maintaining and reviewing accounts in credit	Pending Remediation	2025/26	2	31/03/2027		August 2026: Will be Followed-Up during Annual Audit
7821	7331	HC Council Tax 2025/26	Periodic reviews of discounts	Pending Remediation	2025/26	2	31/03/2027		August 2026: Will be Followed-Up during Annual Audit
8627	8086	HC Court of Protection 2025/26	Some Appointee Current Accounts are carrying balances over £5k and may need to be reviewed for deputyship application.	Pending Remediation	2025/26	2	30/09/2026		August 2026: Follow-Up in Progress
8630	8089	HC Court of Protection 2025/26	Procedures for large transfers to savings need to be documented.	Pending Remediation	2025/26	2	30/09/2026		August 2026: Follow-Up in Progress
8850	8303	HC Court of Protection 2025/26	There may be opportunities to improve Financial Record-Keeping within Caspar	Pending Remediation	2025/26	3	30/09/2026		August 2026: Follow-Up in Progress
9098	8520	HC Court of Protection 2025/26	Follow up - Care home records of income and expenditure	Pending Remediation	2025/26	2	30/09/2026		August 2026: Follow-Up in Progress
9279	8659	HC Licensing - TEN's 2025/26	Data Quality and Records	Pending Remediation	2025/26	2	01/04/2027		Not Due
8356	7833	HC NNDR 2025/26	Rural Settlement List	Pending Remediation	2025/26	2	31/12/2026		August 2026: Will be Followed-Up during Annual Audit
8495	7963	HC NNDR 2025/26	Recording Charity Numbers in the Academy System	Pending Remediation	2025/26	3	31/03/2027		August 2026: Will be Followed-Up during Annual Audit
8562	8028	HC NNDR 2025/26	VOA Reconciliation Discrepancies	Pending Remediation	2025/26	3	31/03/2027		August 2026: Will be Followed-Up during Annual Audit
8703	8162	HC NNDR 2025/26	Empty Properties Review	Pending Remediation	2025/26	2	31/03/2027		August 2026: Will be Followed-Up during Annual Audit
8704	8163	HC NNDR 2025/26	Written Procedures	Pending Remediation	2025/26	3	31/03/2027		August 2026: Will be Followed-Up during Annual Audit

ID (Action Plan)	ID (Issue)	Audit Title	Title	Issue Status	Period	Priority Score	Original Timescale	Timescale	Follow-Up Assessment
7823	7333	HC Payroll 2025/26	Processes to identify potential ‘ghost’ employees are not in place	Pending Remediation	2025/26	3	31/08/2026		August 2026: Follow-Up in Progress
8077	7569	HC Payroll 2025/26	Salary Increases – manual calculations are not checked	Pending Remediation	2025/26	3	31/08/2026		August 2026: Follow-Up in Progress
8136	7624	HC Payroll 2025/26	Payroll Reconciliation Oversight is not defined	Pending Remediation	2025/26	3	31/08/2026		August 2026: Follow-Up in Progress
8156	7643	HC Payroll 2025/26	The monthly Payroll is not approved by a HC Officer	Pending Remediation	2025/26	2	31/08/2026		August 2026: Follow-Up in Progress
8157	7644	HC Payroll 2025/26	Faster payment bank charges and additional fees for processing transactions after the payroll cut-off date or are not known.	Pending Remediation	2025/26	3	31/08/2026		August 2026: Follow-Up in Progress
8159	7646	HC Payroll 2025/26	Mileage claims are not submitted in accordance with the Travel & Subsistence guidance.	Pending Remediation	2025/26	3	31/08/2026		August 2026: Follow-Up in Progress
9816	9161	HC Public Protection 2025/26	Procedure	Pending Remediation	2025/26	3	31/01/2027		Not Due
10040	9379	HC Public Protection 2025/26	Data, records and management oversight	Pending Remediation	2025/26	3	31/01/2027		Not Due
10041	9380	HC Public Protection 2025/26	Safeguarding	Pending Remediation	2025/26	3	31/01/2027		Not Due
8125	7613	HC Temporary Accommodation 2025/26	Recharges and Payments - Continuation to embed controls.	Pending Remediation	2025/26	3	31/08/2026		August 2026: Follow-Up in Progress
9151	8549	HC Transport Hub 2025/26	Key Contract Management	Pending Remediation	2025/26	2	31/12/2026		July 2026: Follow-Up audit complete #5612. This action is part complete further follow-up is required.
9154	8552	HC Transport Hub 2025/26	Recording of Compensation Events	Pending Remediation	2025/26	2	30/04/2026		July 2026: Follow-Up audit complete #5612. This action is part complete further follow-up is required.
9155	8553	HC Transport Hub 2025/26	Budget Management	Pending Remediation	2025/26	2	30/04/2026		July 2026: Follow-Up audit complete #5612. This action is part complete further follow-up is required.
9055	8478	HC Treasury Management 2025/26	Member Training	Pending Remediation	2025/26	3	31/12/2026		Not Due
9085	8508	HC Treasury Management 2025/26	Reconciliation Processes	Pending Remediation	2025/26	3	31/12/2026		Not Due

