

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 – context

Local government has remained under significant pressure in 2025/26

National

Past



Funding Not Meeting Need

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.



Workforce and Governance Challenges

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



Financial Sustainability

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.



External Audit Backlog

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



Digital change

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.



Reorganisation and Devolution

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)

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
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
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

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
KR1	The Council should continue to implement the Dedicated Schools Grant (DSG) management plan with the Department for Education and the Schools Forum, strengthening expenditure controls in the High Needs block, monitoring cost pressures and associated financial risks through quarterly finance reports, and reporting progress to Cabinet and the Schools Forum until the DSG position is sustainable.	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. 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.	In progress	Key recommendation updated and re-raised – see KR1.

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
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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