

Supplement to the agenda

Audit and Governance Committee

Thursday 25 September 2025, 10.00 am

Conference Room 1, Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE

Contents

Item	Title and purpose	Page(s)
8.	2024/25 External Audit Findings Report	3 - 76
	To consider the external audit findings report for the year ended 31 March 2025.	
9.	Annual Governance Statement 2024/25	77 - 96
	To seek the view of the committee as to whether the Annual Governance Statement (AGS) for 2024/25 properly reflects the internal control environment the council is operating in and the appropriateness of actions identified to improve.	
10.	2024/25 Statement of Accounts	97 - 242
	To approve the 2024/25 Statement of Accounts and associated letter of representation from Grant Thornton, the external auditors.	
11.	External Auditor's Annual Report 2024/25	243 -
	To present to the Audit and Governance Committee the External Auditor's Annual Report 2024/25 for information and discussion.	288



Title of report: 2024/25 External Audit Findings Report

Meeting: Audit and Governance Committee

Meeting date: Thursday 25 September 2025

Report by: Director of Finance, Chief Accountant

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 2025.

Recommendation(s)

That:

- a) The report of the external auditor attached at Appendix 1 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. None; 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 value for money.

Key considerations

- 3. The external audit findings report is attached at Appendix 1. The report has been prepared by the council's external auditor, Grant Thornton, and summarises the key findings and other matters arising from the statutory audit and the preparation of the financial statements for the year ended 31 March 2025 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 3 to the 2024/25 Statement of Accounts at item 10 of this agenda, confirms the audit opinion that the financial statements:
 - give a true and fair view of the financial position of the group and of the Authority as at 31 March 2025 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 2024/25; 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 25 September 2025;
 - 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 decision 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.

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 1. Grant Thornton agree 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 1 details the conclusions on work completed.

Consultees

16. None.

Appendices

Appendix 1: The Audit Findings Report for Herefordshire Council year ended 31 March 2025.

Background papers

None identified.



Audit Findings (ISA 260) Report for Herefordshire Council

Year ended 31 March 2025

24 September 2025





Herefordshire Council

Plough Lane Hereford HR4 OLE

24 September 2025

Dear Members of the Audit and Governance Committee

Audit Findings for Herefordshire Council for the year ended 31 March 2025

Grant Thornton UK LLP 2 Glass Wharf, Bristol, BS2 OEL +44 (0)11 7305 7600 www.grantthornton.co.uk

This Audit Findings 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 will be 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

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.



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-2024-.pdf (grantthornton.co.uk).

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

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.



Contents

Section	Page
01 Headlines and status of the audit	5
02 Group audit	12
03 Materiality	14
04 Overview of significant risks identified	17
05 Other findings	25
06 Communication requirements and other responsibilities	33
07 Audit adjustments	38
08 Value for money	55
09 Independence considerations	57
Appendices	64

01 Headlines and status of the audit

Headlines (1)

This page, and the following pages, summarise 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 2025 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; and,
- 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 is being completed during June-September, as planned. Our findings are summarised on pages 17 to 32. We have identified adjustments to the financial statements that are detailed at pages 38 to 48.

We have also raised recommendations for management as a result of our audit work. These are set out at page 49. Our follow up of recommendations from the prior year's audit are detailed at page 50.

Our work on the financial statements is largely complete, except for a handful of audit areas which are scheduled to be finalised in September, before the planned meeting of the Audit and Governance Committee on 25 September. The outstanding areas of work are detailed on page 11.

The Council and the audit team has undertaken extensive further investigation work, including the involvement of forensics specialists, as a result of findings in respect of the governance of one capital programme (please see page 20). No further greas of concern were identified as a result of this work.

Therefore, our proposed audit opinion will be unqualified.

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

Headlines (2)

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:

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

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this. We identified 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.

Headlines (3)

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; and
- to certify the closure of the audit.

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

Significant matters

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

Headlines (4)

National context – audit backlog

Government proposals around the backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations required audited financial statements to be published by the following dates:

- For years ended 31 March 2025 by 27 February 2026
- For years ended 31 March 2026 by 31 January 2027
- For years ended 31 March 2027 by 30 November 2027

The statutory instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enable to the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

Herefordshire Council have not been subject to any disclaimer of opinion because of the backstop as all audits have been completed within the deadlines over previous years, and there is no expectation that the financial statements will not be published by the backstop dates going forward.

Headlines (5)

Implementation of IFRS 16

Implementation of IFRS 16 Leases became effective for local government bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Local government accounts webinars were provided for our local government audit entities during March, covering the accounting requirements of IFRS 16. Additionally, CIPFA has published specific guidance for local authority practitioners to support the transition and implementation on IFRS 16.

Introduction

IFRS 16 updates the definition of a lease to:

• "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration."

In the public sector the definition of a lease is expanded to include arrangements with nil consideration. This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

IFRS 16 requires the right of use asset and lease liability to be recognised on the balance sheet by the lessee, except where:

- leases of low value assets
- short-term leases (less than 12 months).

This is a change from the previous requirements under IAS 17 where operating leases were charged to expenditure.

The principles of IFRS 16 also apply to the accounting for PFI liabilities.

The changes for lessor accounting are less significant, with leases still categorised as operating or finance leases, but some changes when an authority is an intermediate lessor, or where assets are leased out for little or no consideration.

Impact on the Authority

The Council have applied the requirements of IFRS 16 in the 2024/25 accounts. This has resulted in a £13.4 million increase to the opening balance of PPE. The majority of the adjustment relates to the remeasurement of the Council's PFI asset. The Council had a relatively small number of peppercorn leases. The Council have updated their accounting policies and disclosures accordingly.

Overview and status of the audit

Recap of our audit approach

Materiality has been set at 2% of the gross cost of services expenditure as per the draft financial statements (2023/24: 1.5%), resulting in a materiality of £10.500 million for the Council (2023/24: £7.600 million), and £10.600 million for the Group (2023/24: £7.700 million). This has been increased from the materiality communicated in our Audit Plan which was based on the net cost of services as per the prior year signed accounts, therefore the increase is in line with the increase in costs from 2023/24 to 2024/25.

Herefordshire Council has only one entity which is consolidated into the Group financial statements; Hoople Limited. The only balance in the accounts of Hoople Limited which is material to the Group financial statements is the employee expenses, therefore this has been tested by Grant Thornton directly to provide sufficient audit assurance. This is consistent with the approach communicated in our Audit Plan.

There have been no significant changes to our risk assessment communicated in our Audit Plan.

Status of the audit

Our work is substantially complete, however a handful of areas of audit work are still subject to quality review and will be finalised in September, with the aim to issue the opinion before the end of the month subject to the completion of these final areas.

The areas that are outstanding at time of writing are:

- Receipt and review of the Pension Fund Assurance letter
- Final review by engagement manager and engagement lead
- · Receipt of management's signed representation letter
- Review of the final set of signed financial statements

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		Auditor	Key Audit Partner / Responsible Individual	Status	Comments
Herefordshire Council	Yes	Scope 1	Scope 1	Grant Thornton UK	Grace Hawkins	•	Our work is largely complete, however a handful of areas of audit work are scheduled to be finalised in September. For more details please refer to the 'Status of audit' on page 12.
Hoople Ltd	Yes	Scope 2	Scope 2	Not applica	ıble	•	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 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.

[Scope 1] 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) [Scope 2] 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.

© 2025 Grant Thornton UK LLP

03 Materiality

2

Our approach to materiality (1)

As communicated in our Audit Plan dated 14 March 2025, we determined Group materiality at the planning stage as £10.3 million based on 2% of prior year net cost of services. At year-end, we have reconsidered planning materiality based on the draft consolidated financial statements, this has led to an increase of group materiality to £10.6 million. A recap of our approach to determining materiality is set out below.

Basis for our determination of materiality

- We have determined Group materiality at £10.6million based on professional judgement in the context of our knowledge of the Authority, including consideration of factors such as debt arrangements, the business environment in which the Council operates and the control environment.
- We have used 2% of gross cost of services 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 1.5% applied in the prior year, following an update to Grant Thornton internal guidance and a reassessment of risk.
- The materiality communicated in our Audit Plan was based on the cost of services reported in the 2023/24 financial statements. This has been updated upon receipt of the draft 2024/25 financial statements, which has resulted in an increase in the overall materiality.

Performance materiality

• Where audit work on components is being performed using component performance materiality, this has been set at between £4.372 million (for Hoople Ltd) and £7.553 million (for the Council), with the component performance materiality used reflecting the relative risk and size of that component to 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 £0.525 million, in addition to any matters considered to be qualitatively material.

Our approach to materiality (2)

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

	Group (£)	Authority (£)	Qualitative factors considered
Materiality for the financial statements	10,600,000	10,500,000	Financial statement materiality is based on 2.0% of 2024/25 draft gross cost of services expenditure.
Performance materiality	7,950,000	7,875,000	Performance materiality is based on 75% of financial statement materiality.
Reporting threshold	530,000	525,000	Triviality is set at 5% 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.

Overview of audit risks

The below table summarises the significant 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.

Risk level	Change in risk since Audit Plan	Fraud risk	Level of judgement or estimation uncertainty	Status of work
Significant	\leftrightarrow	✓	Medium	
Significant	\longleftrightarrow	*	High	
Significant	\leftrightarrow	*	High	
Significant	\leftrightarrow	*	High	•
Rebutted	\leftrightarrow	✓	low	•
Rebutted	\longleftrightarrow	✓	low	•
	Significant Significant Significant Significant Rebutted	risk since Audit Plan Significant Significant Significant Significant Rebutted risk since Audit Plan	Risk level Audit Plan Fraud risk Significant ↔ ✓ Significant ↔ × Significant ↔ × Significant ↔ ✓ Rebutted ↔ ✓	Risk level Audit Plan Fraud risk Level of judgement or estimation uncertainty Significant ↔ ✓ Medium Significant ↔ × High Significant ↔ × High Significant ↔ × High Rebutted ↔ ✓ low

- Assessed risk increase since Audit Plan
- → Assessed risk consistent with Audit Plan
- Assessed risk decrease since Audit Plan

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

Significant risks (1)

Risk identified

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.

Audit procedures performed

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; and
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness;

Key observations

<u>Journals</u>

As in the prior year, we have noted that the Authority's ledger system does not allow for the digital approval of journals before they can be posted. Instead, management maintains a spreadsheet record of the journals and also manually tracks the approvals. We have also 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. The use of a spreadsheet to record the approval of journals presents a risk that this record could be manipulated and the controls could be circumvented. The lack of a digital record of approvals in the ledger has also limited our ability to perform our data analytics routines in the identification of risky journals. We appreciate that this is a limitation of the ledger system and therefore not easily in the control of management, and also note that they have taken some steps to address our prior year recommendations by improving the data recorded on the spreadsheet they use. As we consider that elements of the risks identified previously still remain, we have kept open our prior year recommendations in respect of this matter. An update from management can be found on page 52.

No issues were identified from our testing of journal entries.

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.

© 2025 Grant Thornton UK LLP

Significant risks (2)

Risk identified	Audit procedures performed	Key observations
Management	We have:	Management Override Issue & Investigation
override of controls	 evaluated the design and implementation of management controls over journals; 	processes and Programme Management Office oversight, set out a governance framework
(continued) Under ISA (UK) 240, there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.	 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; and gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness; 	intended to provide assurance over cost control, delivery monitoring, and escalation for major capital projects. However, these arrangements are not consistently applied. Review of the Student Accommodation project identified management override of expected controls, with approval decisions made using outdated viability assessments, insufficient segregation of duties, procurement lacking a documented rationale, legal advice not escalated appropriately, and documentation and audit trails for key decisions were incomplete. Extensive further investigation work was completed by the Council and the audit team to establish whether this was an isolated issue, including the involvement of forensics specialists where necessary. No further areas of concern were identified as a result of this work.

Significant risks (3)

Risk identified	Audit procedures performed	Key observations
The revenue cycle includes fraudulent transactions	n/a - risk rebutted	n/a - risk rebutted
Under ISA (UK) 240, there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud related to revenue recognition.		
This risk was rebutted in our audit plan, and that assessment remains appropriate.		
Presumed risk of fraud in expenditure recognition	n/a - risk rebutted	n/a - risk rebutted
Practice note 10: Audit of financial statements of Public Sector Bodies in the United Kingdom (PN10) states that the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition for public sector bodies. 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.		
This risk was rebutted in our audit plan, and that assessment remains appropriate.		

28

Significant risks (4)

Risk identified	Audit procedures performed	Key observations
Valuation of land and	We have:	As in the prior year we have identified errors
buildings	• Evaluated management's processes and assumptions for the calculation of the	as a result of incorrect areas being used to
The significant value of land and buildings and	estimate, the instructions issued to management's valuation experts and the scope of their work.	form the valuations of both land and building asses and investment properties. These errors have resulted in adjustments to the financial
the sensitivity to changes in	• Evaluated the competence, capabilities and objectivity of the valuation expert.	statement and are reported on pages 39 and
assumptions.	 Evaluated the valuer's report to identify assets that have large and/or unusual changes in value and/or approach to the valuation and subject those assets to testing. 	40. In the prior year we raised a recommendation in respect of this matter and that recommendation remains open; an update from management can be found on
Valuation of investment	 Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. 	page 54.
properties The significant value of investment properties	 Tested a sample of asset valuations to ensure that the correct accounting treatment has been applied and correctly reflected in the financial statements. 	We are satisfied that judgements made by management are appropriate and have been determined using consistent methodology.
and the sensitivity to changes in	 Engaged a valuation expert to review the valuation instructions sent to the Council's valuer and the valuation report received. 	Having assessed management judgements and estimates individually and in aggregate
assumptions.	 For land and buildings valuations; Evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to their carrying value at the year end. 	we are satisfied that there is no material misstatement arising from management bias

Significant risks (5)

Risk identified

Valuation of net pension asset

The Authority's share of the pension fund net asset represents a significant estimate in the financial statements. The pension fund net asset is considered a significant estimate due to the size of the numbers involved (£94.9m in the Authority's Balance Sheet at 31 March 2025, before the application of the asset ceiling) and the sensitivity of the estimate to changes in key assumptions.

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 there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. However, the Authority has had to consider the potential impact of 'IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset'. Because of this we have assessed the recognition and valuation of the pension asset as a significant risk. (continued overleaf)

Audit procedures performed

We have:

- Evaluated management's processes and controls for the calculation of the gross asset and gross liability and estimates, the instructions issued to the actuarial expert and the scope of their work;
- Evaluated the assumptions made by the actuary in the calculation of the estimate, using work performed by an auditor's expert and additional follow up procedures, where required;
- Evaluated the data used by management's experts in the calculation of the estimates;
- Considered the impact of IFRIC 14 and evaluated its application;
- Performed substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations; and
- Assessed the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements.

Key observations

The Authority had considered the potential impact of IFRIC 14 before the commencement of the audit and had engaged their actuary to prepare an assessment as part of the IAS 19 report. As a result, the Authority have recognised a credit to the balance sheet of £102.0 million in respect of an asset ceiling, which has reduced the £94.9 million net asset to a £7.1 million liability.

At the time of writing this report we are awaiting the IAS 19 assurance letter from the auditor for the pension scheme and therefore cannot conclude on this work. However, from the work performed to date, we have not identified any issues in respect of the valuation of the net pension fund liability.

Significant risks (6)

Risk identified Audit procedures performed Key observations

Valuation of net pension asset (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. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have an approximately 1.5% effect on the liability/asset. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in the calculation. With regard to these assumptions, we have therefore identified valuation of the Authority's net pension liability as a significant risk.

05 Other findings

Other areas impacting the audit

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Issue	Commentary	
IFRS 16 implementation	We have:	Auditor view
The adoption of IFRS 16 is required for local government authorities at 1 April 2024. The Authority have disclosed the implementation of the new accounting standard, the nature of the changes in the accounting policy for leases, along with the impact of IFRS 16 on transition.	 Reviewed the accounting policies and disclosures in relation to the adoption of IFRS 16; Tested the calculation of the lease liabilities; Tested the valuation of right of use assets; Assessed the completeness of the assets and liabilities, and management's procedures and controls for identifying leases falling under IFRS 16. 	Our work has not identified any issues in regard to the completeness of leases or application of the new IFRS16 accounting standard. This work is still subject to manager and engagement lead review.

Other findings – significant matters

Issue	Commentary	
Prior period adjustments	The Authority has received £22.9million of grants from the Department for Communities and Local Government (DCLG) which was incorrectly classified as a non-ring-fenced grant despite there being conditions attached to the grant. As a result, the grant income has been charged through the tax and non-specific grant income line in the CIES, when it should have been charged through the costs of services. This issue was present in the prior year, and therefore, as the amount is material, the Council will prepare a prior period adjustment, to correct the prior year balances (£16.5million).	Auditor view The Authority have appropriately corrected for the issue identified and made the necessary disclosures. Management response These grants are part of the Settlement Funding Assessment for budget setting and have historically been treated as grants within Taxation and non-specific grant income. Management have agreed to amend the grant income to be included within appropriate
		directorate lines within Net cost of services.

Other findings – key judgements and estimates (1)

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Valuation of land and buildings £385.7m at 31 March 2025	Other land and buildings comprises £297.7m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£89.0m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Authority has engaged Wilks, Head and Eve to complete the valuation of properties as at 31 March 2025 on a five yearly cyclical basis. 54% of total assets were revalued during 2024/25 (2023/24: 80%). Management have considered the year end value of non-valued properties. Management have applied indices to determine whether there as been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of land and buildings was £385.7m, a net decrease of £8.8m from 2023/24 (£394.5m).	 We have carried out the following work in relation to this estimate, in line with the revised ISA540 requirements: Assessed management's expert to ensure suitably qualified and independent; Assessed the completeness and accuracy of the underlying information used to determine the estimate; Assessed the appropriateness of any alternative site assumptions; Assessed the impact of any changes to valuation method; and Assessed adequacy of disclosures of estimate in the financial statements. 	We have applied our own indices to determine the potential change in value of assets not revalued at 31 March 2025, and identified a potential non material understatement

Assessment:

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

© 2025 Grant Thornton UK LLP

Other findings – key judgements and estimates (2)

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Valuation of investment property	The Authority has engaged Wilks, Head and Eve to complete the annual valuation of investment properties held at fair value as at 31 March 2025. 100% of total assets were revalued during	We have carried out the following work in relation to this estimate, in line with the revised ISA540 requirements:	floor plans used as part of the source data
£53.5m at 31 March 2025	2024/25. The total year end valuation of investment property was £53.5m, a net increase of £0.9m from 2023/24 (£52.6m).	 Assessed management's expert to ensure suitably qualified and independent; 	
		 Assessed the completeness and accuracy of the underlying information used to determine the estimate; 	
		 Assessed the appropriateness of any alternative site assumptions; 	
		 Assessed the impact of any changes to valuation method; and 	
		 Assessed adequacy of disclosures of estimate in the financial statements. 	

Other findings – key judgements and estimates (3)

Key judgement or estimate

Valuation of net pension liability

£7.5m at 31 March 2025

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the Balance Sheet as an asset and whether any additional liabilities are required in respect of onerous funding commitments.

(continued)

Summary of management's approach

The Authority's net pension liability at 31 March 2025 is £7.5m (PY £8.7m) [comprising the Worcestershire County Council Local Government Pension Scheme and unfunded defined benefit pension scheme obligations. The Authority uses Hyman Robertson to provide actuarial valuations of the Authority's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2022. Given the significant value of the gross pension fund assets and liabilities, small changes in assumptions can result in significant valuation movements. There has been a £1.1m net actuarial gain during 2024/25.

Auditor commentary

We have carried out the following work in relation to this estimate:

- Assessed management's expert to ensure they are suitably qualified and independent;
- Assessed the actuary's approach taken, and performed detailed work to confirm reasonableness of approach;
- Made use of PwC as auditors' expert to assess actuary and assumptions made by actuary please see below:

Assumption	Actuary value	PwC range	Assessment
Discount rate	5.8%	5.80%-5.85%	Reasonable
Pension increase rate	2.80	2.70%-2.80%	Reasonable
Salary growth	4.3%	2.70%-3.80%	Optimistic
Life expectancy - Males currently aged 45/65	21.2/ 22.5	23.7 ±8-10 years/ 22.1 ±8-10 years	Reasonable
Life expectancy — Females currently aged 45/65	23.6/ 25.4	26.4 ±8-10 years/ 24.3 ±8-10 years	Reasonable

Assessment

We are awaiting assurances from the pension fund auditor, and therefore no conclusion has been drawn at this time.

(continued)

Other findings – key judgements and estimates (4)

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Valuation of net pension		We have carried out the following work in relation to this estimate:	
liability £7.5m at 31 March 2025		 Assessed the completeness and accuracy of the underlying information used to determine the estimate; 	
		- Assessed the impact of any changes to valuation method;	
IFRIC 14 limits the measurement of the defined benefit asset to the 'present		 Assessed the reasonableness of the Authority's share of the LGPS pension assets and any asset ceiling consideration under IFRIC 14; 	
value of economic benefits'		- Assessed the reasonableness of any changes in estimates;	
available in the form of refunds from the plan or reductions in future		 Assessed the adequacy of disclosures of estimates in the financial statements; and 	
contributions to the plan.		 Assessed the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Authority's financial statements. 	

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.

			ITG	_		
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
Unit 4 (Business World)	ITGC assessment (design and implementation effectiveness only)	• Green	• Green	• 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

06 Communication requirements and other responsibilities

Other communication requirements

Issue	Commentary
Matters in relation to fraud	The Council and the audit team has undertaken extensive further investigation work, including the involvement of forensics specialists, as a result of findings in respect of the governance of a capital programme (please see page 20). This work did not identify any instances of fraud.
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 Council and the audit team has undertaken extensive further investigation work, including the involvement of forensics specialists, as a result of findings in respect of the governance of a capital programme (please see page 20). This work did not identify any instances of breaches in laws and regulations.
Written representations	Representations will be requested from management, including specific representation in respect of the prior period adjustment that has been identified.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Authority's banking, lending and investment partners. This permission was granted, and the requests were sent. All of these requests were returned with positive confirmations.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations	All information and explanations requested from management was provided.

Other responsibilities (1)

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 (2)

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 (3)

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 expect to issue an unmodified opinion in this respect.
Matters on which we report	We are required to report on a number of matters by exception in a number of areas:
by exception	 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 significant weaknesses.
	We have nothing to report on these matters expect we have reported two significant weaknesses in our Auditor's Annual Report which accompanies this report.
Specified procedures for Whole of Government	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.
Accounts	Note that work is not required as the Authority does not exceed the threshold.
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 2025 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 the audit of the Whole of Government Accounts is complete for the year ended 31 March 2025. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2025.

07 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

All adjusted misstatements are set out in detail below, along with the impact on the key statements.

Detail	Income and Expenditure Statement £'000	Balance Sheet £°000	Impact on total net comprehensive expenditure £'000	Impact on general fund £'000
1. Investment property areas During the year, a part of one of the Council's investment properties was sold, however the disposed portion of the property remained included in the area that was valued by the Council's valuer at 31 March 2025, resulting in an overstatement of the valuation. The overstatement amounted to £4.997 million. We have been able to isolate this error to the asset in which it was found. There is no impact on the general fund as revaluation gains/losses are charged to the revaluation reserve in unusable reserves.	Surplus on revaluation of non-current assets, through other comprehensive income overstated:	Investment property overstated: £4,997	Total comprehensive expenditure understated: £4,997	£nil

Comprehensive

Audit adjustments (2)

Impact of adjusted misstatements

	Income and Expenditure Statement	Balance Sheet	Impact on total net comprehensive expenditure	Impact on general fund
Detail	£,000	£,000	£'000	£,000
2. Classification of ring-fenced grants The Authority has received £22.9 million of grants from the Department for Communities and Local Government (DCLG) which was incorrectly classified as a non-ring-fenced grant despite there being conditions attached to the grant. As a result, the grant income has been charged through the tax and non-specific grant income line in the CIES, when it should have been charged through the costs of services. This issue was present in the prior year, and therefore, as the amount is material, the Council will also prepare a prior period adjustment, to correct the prior year balances.	There is no net impact on the CIES, however individual balances are affected. Cost of services income understated: £22,900 Tax and non-specific grant income overstated: £22,900	£nil	£nil	£nil
Overall impact	£4,997	£4,997	£4,997	Nil

Comprehensive

© 2025 Grant Thornton UK LLP

Audit adjustments (3)

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?
1. Note 19 Property, plant and equipment movements	The disclosure of the adjustment to the opening balance of PPE, due to the initial application of IFRS 16, omitted the PFI assets and therefore the disclosure does not cast. This does not affect the balance sheet balance as the closing balance disclosed is correct.	Yes
2. Note 19 Property, plant and equipment movements	The Council have disclosed the value of assets revalued at 31 March 2025 as £299.6 million. This figure is overstated by £2.8 million, due to the inclusion of the adjustment due to the initial application of IFRS 16 on several right of use assets.	No
3. Cash Flow Statement	In our Council cash flow testing, we identified a balancing figure variance of £1.8 million in Investing Activities, which the council was unable to explain. This variance is also reflected in the consolidated group cash flow.	No
4. Note 26 Private finance initiatives (PFI)	The Council has shown £10.3 million relating to the remeasurement of the opening balance of PFI liabilities under IFRS 16. The Grant Thornton PFI team have calculated that £824,000 of this actually relates to in-year measurements which we would expect to be separately identified. There is no impact on the total liability recorded in the financial statements. This guidance was released in June after the publication of the draft financial statements.	No
5. Note 21 Capital Financing Requirement (CFR)	In 2014/15, £20 million of spend on road investments was financed by prudential borrowing. It was agreed that the service would repay that borrowing principal through the allocation of Local Transport Plan capital grant each year. This repayment has been added to the CFR balance each year within the note when no new asset has been created, resulting in a cumulative overstatement of the CFR balance of £5.4 million. There is no adjustment to the ledger or the main statements. As this amount is immaterial no Prior Period Adjustments disclosures are required.	Yes

84

Audit adjustments (4)

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 Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Income and Expenditure Statement £°000	Balance Sheet £°000	net comprehensive expenditure £'000	Impact on general fund £°000	Reason for not
1. Invoices received testing We identified misstatements from our testing of invoices received around the year end date. The first relates to an invoice for services received across the 23/24 and 24/25 years. The invoice was received late, and no accrual was posted in 23/24, resulting in a £33,147 overstatement in the 24/25 expenditure. The second is a similar situation, where an invoice relating to services received in 24/25 was received late, however in this case an accrual was posted into the 24/25 year, but the accrual was overestimated by £57,217 such that the 24/25 expenditure is overstated. We have estimated that the potential impact of these errors, if seen across the portion of the invoices that we haven't tested, could be around £721k.	Cost of services expenditure overstated: £721	Creditors Overstated £721	Total comprehensive expenditure overstated: £721	Nil	Not material and an estimated potential error.

Comprehensive

Impact on total

Audit adjustments (5)

Impact of unadjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net comprehensive expenditure £'000	Impact on general fund £'000	Reason for not adjusting
2. Capital Financing Requirement (Note 21)	Nil	Debit Capital	Nil	Nil	
During 2024/25, the financing of £5.2m historic broadband spend was amended from prudential borrowing to grant financing. Historic MRP		Adjustment Account			an estimated potential error.
charges of £1.6m were not reversed which would have resulted in a debit to the Capital Adjustment Account.		£1,600			
		Credit Unusable Reserves			
		£1,600			

Ö

Ŋ

Audit adjustments (6)

Impact of unadjusted misstatements

Detail	Income and Expenditure Statement £'000	Balance Sheet £°000	net comprehensive expenditure £'000	Impact on general fund £'000	Reason for not adjusting
3. Land and building areas During the year, we have identified an error in two of our selected samples where the GIA which was used in the draft valuation changed changing the valuation by 0.768million. The GIA used in the draft valuation was not correct which was updated post this was picked for sample testing.	Surplus on revaluation of non-current assets, through other comprehensive income overstated:	Property, Plant and Equipment overstated: £768 Revaluation Reserve overstated	Total comprehensive expenditure understated: £636	£nil	Not material and an estimated potential error.
	£636	£132			

Comprehensive

Impact on total

Impact of unadjusted misstatements in the prior year (1)

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 2023/24, and the resulting impact upon the 2024/25 financial statements. We also present the cumulative impact of both prior year and current year unadjusted misstatements on the 2024/25 financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Comprehensive

Impact on total

Detail	Income and Expenditure Statement £°000	Balance Sheet £°000	net comprehensive expenditure £'000	Impact on general fund £'000	Reason for not adjusting/2024/ 25 update
1. Accruals - 1 We identified an accrual for £3.134m of expenditure incurred in 2023/24. The associated invoice, received post-year end, amounted to £2.349m, with £2.296m relating to 23/24. Of the original accrual, only £2.189m related to this invoice, therefore the accrual is understated by £0.107m and so the expenditure for 2023/24 is understated by this amount, and the expenditure for 2024/25 is overstated by the same.	Net cost of services expenditure understated £360	Accruals understated £360	Net surplus overstated £360	General fund balance overstated £360	Immaterial estimated error No continuing impact on 2024/25.
We estimate that, if the error found in our sample is representative of the population from which it was selected, then the total misstatement could be £360,000.					

Impact of unadjusted misstatements in the prior year (2)

Detail	Comprehensive Income and Expenditure Statement £°000	Balance Sheet £'000	Impact on total net comprehensive expenditure £'000	Impact on general fund £°000	Reason for not adjusting/2024/ 25 update
2. Accruals - 2 From our expenditure invoice testing, we identified several examples where expenditure either wasn't fully accrued in prior years, or accruals were not accurate. These examples gave rise to a total overstatement in the 2023/24 expenditure of £99,815.	Net cost of services expenditure understated £2,905		Net surplus understated £2,905	General fund balance understated £2,905	Immaterial error No continuing impact on 2024/25.
We estimate that, if the error found in our sample is representative of the population from which it was selected, then the total misstatement could be £2.905 million.					

Impact of unadjusted misstatements in the prior year (3)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net comprehensive expenditure £'000	Impact on	Reason for not adjusting/2024/ 25 update
3. Land and building floor areas	Net cost of	Property, plant	Net surplus overstated	£nil as the	Immaterial error.
Through our testing of the other land and buildings valuations we sought to verify the floor areas used by the valuer in their	services expenditure understated	and equipment overstated	£714 (Net cost of service	general fund is	Four out of five assets identified
calculations. In a number of cases, we identified variances between the floor areas used by the valuer and those supported by technical site drawings.	£1,416	£714	expenditure is understated by	capital adjustment	in the prior year were revalued as part of 2024/25.
In some cases, the valuations were overstated as a result, and in some cases understated. As such, we had no reason to believe that there has been any deliberate attempt to inflate the valuations.			£1,416k, however other comprehensive income is also understated by £702k, such that the net effect on total		The remaining one asset has been considered as part of assets
The net impact of those assets which were tested was an overstatement in the property, plant and equipment of £714k, with the misstatement being a mixture of overstatements and understatements which netted off. (Continued overleaf)			comprehensive income is an overstatement of the surplus position by £714k)		not revalued. No continuing impact on 2024/25.

© 2025 Grant Thornton UK LLP

Impact of unadjusted misstatements in the prior year (4)

	Comprehensive Income and Expenditure Statement	Balance Sheet	Impact on total net comprehensive expenditure	Impact on general fund	Reason for
Detail	£,000	£'000	£°000	£,000	not adjusting
3. Land and building floor areas (continued)					
The other side of the error is an understatement in the revaluation reserve (£702k) and an understatement in the charge through the					

surplus or deficit on provision of services, which would ultimately be transferred to the capital adjustment account (CAA) (£1,416k).

We estimated that, if the error found in our sample were representative of the population from which it was selected, then the total misstatement in PPE could be £1,121k, in the revaluation reserve it could be £1,103k and in the CIES/CAA it could be £2,224k.

Not that similar errors have been found in the current year.

Potential overall impact of prior year unadjusted misstatements	Expenditure overstated £1,129	Accruals understated £360 PPE overstated	Net surplus understated £1,831	General fund balance understated £2,545
		£714		LL,JTJ

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
•	Issue	We recommend that management investigate these differences further and
Medium	ve nove identified on immoterial reportable differences in	seek to either correct, or be in a position to explain it, in time for the 2025/26 financial statements audit.
		Management response:
	Management have not been able to provide a suitable explanation for the total variances identified.	The Council has assessed the calculation of its CFR by reference to the Prudential Code and the CIPFA Practitioners' Guide to Capital Finance in Local Government (2019), comparing the CFR items on the balance sheet at 31 March 2025 with the disclosure per Note 21: Capital expenditure and capital financing. A review has been completed, resulting in an adjustment to Note 21 and an immaterial unadjusted misstatement. The immaterial cashflow reconciliation difference will be reviewed for 2025/26 closedown.

Keų

- 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

Follow up of prior year recommendations (1)

We identified the following issues in the audit of the Authority's 2023/24 financial statements, which resulted in recommendations being reported in our 2023/24 Audit Findings Report. We have followed up on these recommendations below.

Assessment

Ongoing

There has been no change to the Council's approach to journals below this limit and we feel that the risks described in the prior year remain relevant in the current year.

Issue and risk previously communicated

Issue

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.

Additionally, we noted a case where a member of the finance team had been requested to post journals without appropriate support being supplied and this was not challenged by the member of the finance team before posting the journal. Management perform monthly budget monitoring, which they believe sufficiently reduces the risk of material misstatement from journals below the authorisation limit, however there is a risk that this may be insufficient to identify inappropriate journals which could cumulatively become material. We targeted our testing towards journals which fell in the £225,000 - £250,000 range and did not identify any instances of management override of controls.

(continued overleaf)

Update on actions taken to address the issue

We recommended that the Council implements a process whereby some, if not all, of the journals below the current threshold are reviewed and that evidence of this review is retained for future audits.

Management update:

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.

© 2025 Grant Thornton UK LLP

Assessment

Update on actions taken to address the issue

Issue and risk previously communicated

Risk

Not having robust controls around the approval of journals presents a number of risks:

- 1. Without formal approval processes, there is a lack of accountability for the accuracy and validity of journal entries. This can lead to ambiguity regarding the individuals responsible for authorising and verifying the entries, making it difficult to assign accountability for errors or irregularities.
- 2. 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, making it challenging to track and understand the origin and purpose of specific transactions.
- 3. Not having journals approved can create opportunities for errors, misstatements, or fraudulent activities to go undetected. It undermines the principle of segregation of duties and internal controls, increasing the risk of unauthorized or inappropriate journal entries being made without proper scrutiny.
- 4. Unapproved journal entries can result in inaccuracies in financial statements, potentially leading to misstated financial results and misinformed decision-making. It may also impact the organisation's ability to provide reliable and transparent financial information to stakeholders and investors

Follow up of prior year recommendations (3)

Assessment

Issue and risk previously communicated

Ongoing

The Council have updated their journal review spreadsheet to include additional information about the timing of the review and the reviewer. 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.

Issue

For journals posted throughout the year which fall above the £2 million/£250,000 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. Management have assured us that the review takes place in practice, however without any evidence of this we have not be able to verify if that is the case.

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.

Update on actions taken to address the issue

We recommended that the Council implements a process whereby evidence of the review of all journals above the review threshold is retained for audit.

Management update:

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. Evidence of review for audit purposes has been added to the spreadsheet.

Follow up of prior year recommendations (4)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Ongoing	Issue	We recommended that management reviews
From our testing this year, we have found further instances of	From our testing, we have identified several instances of the accruals concept not being appropriately applied. We note that this was identified as an issue in the prior year also, and a recommendation was made. It appears that this remains a problem, although we are satisfied that the impact on the accounts is not currently likely to be material.	their processes and controls surrounding the accurate application of the accruals concept to ensure that all income and expenditure is recognised in the period to which it relates.
misstatement	Risk	Management update:
from either inaccurate of	Not consistently applying the accruals concept presents a number of risks:	At each year end accruals are processed to ensure that income and expenditure is
missing accruals, therefore this recommendation remains open.	 Not applying the accruals concept can result in misleading financial statements that do not accurately reflect the company's financial position and performance. This can impact the ability of stakeholders to make informed decisions. 	accounted for in the period in which the council received or provided the goods or service. Due to the strict closedown timetable, estimates
	 Inaccurate financial reporting resulting from not applying the accruals concept can hinder effective planning and decision-making. Management relies on accurate financial information to make strategic decisions, and a lack of accrual accounting can impede this process. 	may be included using judgement and reasonable expectations of value. We will continue to ensure that a review of income and expenditure around the financial year end is
	 Without the accruals concept, the valuation of assets, liabilities, and equity can be distorted, impacting the organisation's overall financial position and performance measures. 	undertaken to ensure accurate recording.

Follow up of prior year recommendations (5)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Ongoing	Issue	We recommended that management reviews the floor area data shared with the valuer to
From our testing this year, we have	We identified that incorrect floor area data had been used in the valuation of the property, plant an equipment. We are satisfied that the impact of the error is unlikely to be material	ensure it is accurate.
found further	however we have only reviewed a sample of assets.	Management update:
instances of misstatement	Risk	We have continued to review the floor area
from inaccurate floor area data used by the valuer in the valuation of both the investment properties and the other land and buildings	There is a risk that the property, plant and equipment could be misstated as a result of using inaccurate data	evidence to provide assurance over data integrity.

08 Value for Money arrangements

Value for Money arrangements

Approach to Value for Money work for the year ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. 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 2024-25. Our draft AAR will be reported to you at the Audit and Governance Committee on 25 September 2025.

In undertaking our work, we are required to have regard to three specified reporting criteria. These are as set out below.



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.



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.

In undertaking this work we have identified significant weaknesses in arrangements. These are outlined in detail within our Auditor's Annual Report.

Independence considerations (1)

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). 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.

4

© 2025 Grant Thornton UK LLP
The Audit Findings | 58

Independence considerations (2)

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 Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

© 2025 Grant Thornton UK LLP

Fees and non-audit services (1)

The following tables below sets 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 to September 2025, 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.

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.

Audit fees	£
Audit of Authority (scale fee)	391,322
Introduction of IFRS16*	1,500
Additional fee in relation to Investigation work*	TBC
Total	TBC

^{*} Potential for additional fees was flagged in our Audit Plan as this is the first year of the implementation of the new standard. This has been calculated based on the additional time taken to gain assurance over the Council's approach and implementation.

© 2025 Grant Thornton UK LLP The Audit Findings | 60

^{**} The Council and the audit team has undertaken extensive further investigation work, including the involvement of forensics specialists, as a result of findings in respect of the governance of a capital programme (please see page 20). The final fee in relation to this additional work will be reported in the final version of our Audit Findings Report.

Fees and non-audit services (2)

Audit-related non-audit services

Service	2023/24 (£)	2024/25 Threats Identified (£)	Safeguards applied
Certification of Housing Benefits Subsidy claim – 2020/21	51,823	- Colf Interest (because	
Certification of Housing Benefits Subsidy claim – 2021/22*	28,698	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
Certification of Housing Benefits Subsidy claim – 2022/23*	28,698	28,698 Self-review (because	fee for this work is £152,146 in comparison to the total
Certification of Housing Benefits Subsidy claim – 2023/24	-	72,250 Grant Thornton provides audit services)	fee for the audit of £391,322 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it
Certification of teachers' pension claim – 2020/21	5,500	- Management (as Grant	is a fixed fee and there is no contingent element to it.
Certification of teachers' pension claim – 2022/23	-	10,000 Thornton reports to the	These factors all mitigate the perceived risk to an acceptable level.
Certification of teachers' pension claim - 2023/24	-	12,500 grant paying body)	
Total	114, <i>7</i> 19	152,146	

^{*}These services were engaged in prior periods but have continued to be delivered into 2024/25 and therefore are included in both years.

Total audit and non-audit fee

Audit fee: £391,322 Non-audit fee: £152,146

The above fees are exclusive of VAT and out of pocket expenses.

© 2025 Grant Thornton UK LLP The Audit Findings | 61

Fees and non-audit services (3)

The fees reconcile to the financial statements as follows:

Service	2023/24 (£)	2024/25 (£)
Audit of Authority	391,839	TBC
Services engaged in 2023/24:		
Certification of Housing Benefits Subsidy claim – 2020/21	51,823	
Certification of Housing Benefits Subsidy claim – 2021/22	28,698	
Certification of Housing Benefits Subsidy claim – 2022/23	28,698	
Certification of teachers' pension claim - 2020/21	5,500	
Services engaged in 2024/25:		
Certification of Housing Benefits Subsidy claim – 2023/24		45,450
Certification of teachers' pension claim – 2022/23		10,000
Certification of teachers' pension claim - 2023/24		12,500
Total (agrees to financial statements)	506,558	TBC

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

© 2025 Grant Thornton UK LLP The Audit Findings | 62

Additional fee analysis – fee variation for IFRS 16

The following table sets out further information on additional fees.

Grade	Rate (Determined by PSAA)	Hours	Fee variation for Audit 2024/25	
Partner/Director	£428	0	Senior review time has been absorbed into the allocated review time for the audit.	
Senior Manager/Manager	£236	0		
Senior Auditor	£153	0	N/a	
Other staff	£117	13	1,500 (rounded).	
Total			1,500	

The above is subject to review by PSAA who will make a final determination.

© 2025 Grant Thornton UK LLP

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 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 the company directors and those 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.

Our team and communications

Grant Thornton core team

Grace Hawkins

Engagement Leac

- Key contact for senior management and Audit and Governance Committee
- Overall quality assurance

Cathy Smith

Audit Manager

- Audit planning
- Resource management
- Performance management reporting

Priya Sharma

In-charge accountant

- · On-site audit team management
- · Day-to-day point of contact
- Audit fieldwork

	Audit reporting	Audit progress	Technical support
Formal	The Audit Plan	Audit planning meetings	Technical updates
communications	The Audit Findings	Audit clearance meetings	
	Auditor's Annual Report	Communication of issues log	
	 Progress and Sector Update Reports 		
Informal communications		Communication of audit issues as they arise	Notification of up-coming issues

As part of our overall service delivery, we may utilise colleagues who are based overseas, primarily in India and the Philippines. Those colleagues work on a fully integrated basis with our team members based in the UK and receive the same training and professional development programmes as our UK based team. They work as part of the engagement team, reporting directly to the Audit Senior and Manager and will interact with you in the same way as our UK based team albeit on a remote basis. Our overseas team members use a remote working platform which is based in the UK. The remote working platform (or Virtual Desktop Interface) does not allow the user to move files from the remote platform to their local desktop meaning all audit related data is retained within the UK.

© 2025 Grant Thornton UK LLP Herefordshire Council 2024/25 | 67

© 2025 Grant Thornton UK LLP

Logistics





© 2025 Grant Thornton. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.



Title of report: Annual Governance Statement 2024/25

Meeting: Audit and Governance Committee

Meeting date: Thursday 25 September 2025

Report by: Director of Finance, Chief Accountant

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To seek the view of the committee as to whether the Annual Governance Statement (AGS) for 2024/25 properly reflects the internal control environment the council is operating in and the appropriateness of actions identified to improve.

Recommendation(s)

That:

a) The committee determines whether the Annual Governance Statement at Appendix 1 properly reflects the risk environment the council is operating in and that actions identified represent an appropriate response.

Alternative options

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

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 2024/25 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 internal audit reports and opinions. It is updated to include any governance issues identified between the balance sheet date and the 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 2024/25 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.
- 6. The CIPFA guidance advises that statements should be meaningful but brief, high level, strategic and written in an open and readable style, and should include:
 - i. 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.
 - ii. reference to and assessment of the effectiveness of the 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.
 - iii. 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.
 - iv. an agreed action plan showing actions taken, or proposed, to deal with significant governance issues.
 - v. reference to how issues raised in the previous year's annual governance statement have been resolved
 - vi. a commitment to monitoring implementation as part of the next annual review.
- 7. There are several components that contribute to the AGS as follows:
 - i. Statutory officer comments;
 - ii. Manager's checklist to inform each corporate director's statement;
 - iii. Self-assessment of significant partnerships.
- 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. Whilst this is a decision 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.

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.	Additional resources will be identified as part of in year financial monitoring for approval in line with financial governance arrangements, if required.

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 have been 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 1: Annual Governance Statement 2024/25

Background papers

None identified.



Introduction

The Annual Governance Statement is a review of our activities to ensure that the council is carrying out its functions effectively. This statement explains how the council has discharged its governance responsibilities during the period from 1 April 2024 to 31 March 2025, the key governance mechanisms in place and planned improvements for 2025/26 and beyond.

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

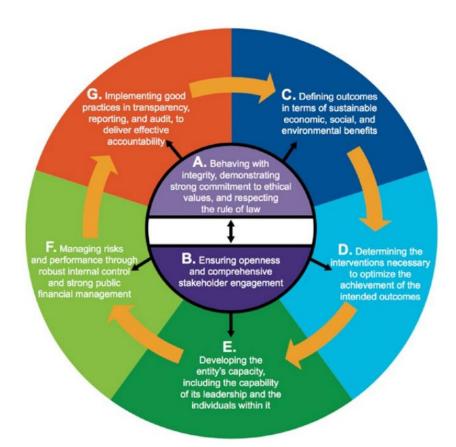
- our business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and properly accounted for; and
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

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. The council aims to achieve good standards of governance by adhering to the seven core principles below:



Overview of Governance Framework

Key elements of the council's governance framework, which have been in place throughout 2024/25 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 strategic direction of the council, alongside the management and performance of the Corporate Leadership Team.
- 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.

External Audit

External Audit provide 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.

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.

The results of the annual review of the effectiveness of the council's governance arrangements during 2024/25 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 2024/25

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 2024/25:

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 continued to review the council's Constitution and associated documents to simplify and enhance visibility across officers, Members and residents.

- In October 2024, a report was taken to full Council to propose amendments to the constitution in relation to: functions of the Audit & Governance Committee including recruitment and appointment of an Independent Person; functions of Planning and Regulatory Committee; clarification of the Planning Code and rules; amendment to the Fostering Panel membership to reflect practice; amendment to employment rules; amendment to the corporate scheme of delegation; amendment to enable consequential changes to be made to the Constitution; clarification to call-in; and role description for position of chair and vice chairperson.
- An update on the operation of the employee Whistleblowing Policy was reported to Audit & Governance Committee in October 2024 to provide assurance on the effectiveness of arrangements in place for employees, and others, to raise concerns that may be in the public interest.
- The Equality Policy 2024-2027 was approved in May 2024. The
 policy supports compliance with the Equality Act 2010 and details
 the council's equality objectives, work across the council to address
 equality issues and highlights areas where additional actions are
 proposed.
- The Corporate Complaints and Compliments Policy and Procedure 2025-2029 has been updated to ensure customers are informed about the complaints process and are aware of the rights and obligations. This ensures effective investigation and appropriate response to formal complaints and compliments received from service users.
- 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 2024/25 to review the position and performance of companies in which the council has a legal interest. The Committee ensures transparent reporting of the council's interests.
- Engagement through Leadership Group, All Staff Briefings and collaboration across Corporate Leadership Team and individual Directorate Teams has taken place throughout 2024/25 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.
- Mandatory training completed in 2024/25 included modules which support decision making and reporting: Information Access & Information Governance, Information Security, Equality, Diversity & Inclusion (EDI).
- Additional training has been delivered through the council's Leadership Group in 2024/25 for officers to share across their teams: Equality Impact Assessments, the role of Scrutiny, Impact of Procurement Reforms and regular updates on the council's financial position and performance.

The governance arrangements, as identified above, have been effective in the period from 1 April 2024 to 31 March 2025. Areas where it is recognised that governance arrangements could be further strengthened include:

- We will continue to promote a culture of accountability and strong ethical values through additional training to Officers to support the documentation of evidence-based decision making and reporting, aligned to the revised Risk Management Strategy and Risk Appetite Statement.
- Improvements to the process for declaring employee interests will be delivered in 2025/26 to enable simplified reporting and updating by employees and support improved oversight by managers.
- Incorporation of equality considerations in service planning templates to improve ownership of equality within each service area.

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

Key aspects of the council's governance arrangements during 2024/25:

The Chief Executive and Corporate Leadership Team value 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.

Activity during 2024/25 comprised:

- 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.
- Active promotion of employee network groups to strengthen the
 voices of employees and provide a safe environment for colleagues
 who share identities, life experiences or cultures to raise
 awareness, challenge discrimination and initiate positive change in
 the workplace.
- 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 ensure transparent political choices for the electorate.
- The Herefordshire Council Plan 2024-28, approved by Council in May 2024, identifies the council's strategies and plans that will support delivery of priorities. As part of routine activity during 2024/25, these plans and strategies have been subject to in-year review and updates made accordingly. Collaboration and engagement across teams, and review by the Corporate Leadership Team, ensures that relevant strategies and policies are aligned to the Transformation Strategy.
- The Audit & Governance Committee appointed an Independent Member in September 2024 to provide specialist knowledge and insight and complement the skills and experience of existing Members. Training and information have been provided to the newly appointed Member to support delivery in the role.
- Feedback from events and surveys to inform the council's corporate priorities. Consultations and surveys, to engage the views of stakeholders, during 2024/25 included: Library Strategy, Active travel improvements, 2025/26 Budget proposals, Herefordshire Domestic Abuse Strategy, Wraparound Childcare requirements and proposed expansion of Aylestone School.

- As part of consultation on proposals for the 2025/26 revenue budget and capital programme, the council developed an online budget simulator tool, enabling residents and other stakeholders to consider funding choices and the impact of changes in income and expenditure on the delivery of services. Engagement also asked for feedback on priorities for the 2025/26 budget and council tax increase options. A further event to engage with the business community was held in December 2024.
- Implementation of a People's Voice questionnaire at the conclusion of each Care Act Assessment in adult social care to secure feedback from individual residents on their experience to inform ongoing service improvement.

The governance arrangements, as identified above, have been effective in the period from 1 April 2024 to 31 March 2025. 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 be implemented in 2025/26 with the establishment of a Major Projects Forum. This body will provide oversight with representation from a variety of stakeholders across the council to provide internal check and challenge.
- A further layer of assurance will be provided via a Corporate Services Gateway board to be chaired by the Deputy Monitoring Officer and Deputy S151 Officer to provide an opportunity for crosscutting legal, financial, governance issues and risks to be considered separately for upward reporting to the Major Projects Forum.

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

Key aspects of the council's governance arrangements during 2024/25:

• The Herefordshire Council Plan 2024-28 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

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

providing the right infrastructure.

- Performance against 2024/25 Delivery Plan actions has been reported quarterly to Cabinet. Reporting identifies the lead officer and outlines progress made in the quarter against the performance measures relevant to each action and indicates the risk of delivery.
- Work to finalise Service Plans has progressed during 2024/25; in June 2024, a workshop took place with the council's Leadership Group to review existing service plans and standardise processes to develop the plans. The outcomes from this workshop have been taken forward to inform the production of Service Plans to support monitoring of performance at Service level in 2025/26.
- The council's Carbon Management Plan 2020/21 to 2025/26 and supporting action plan aims to deliver a 75% reduction in carbon emissions by 2025/26; an interim target on a path to carbon neutral by 2030/31.

- 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 Contract Procedures Rules were updated in 2024/25 to incorporate the legislative requirements of the Procurement Act 2023 and Procurement Regulations 2024. The revised Rules ensure that service specifications for procurement of new or existing services identify social value outcomes and how they will contribute to the council's strategic priorities.

The governance arrangements, as identified above, have been effective in the period from 1 April 2024 to 31 March 2025. Areas where it is recognised that governance arrangements could be further strengthened include:

- Development of an updated Carbon Management Plan and associated action plan.
- Continued work with strategic partners, residents and local organisations to develop a revised countywide carbon dioxide reduction strategy aspiring for carbon neutrality by 2030.

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

Key aspects of the council's governance arrangements during 2024/25:

 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 savings proposals and

- these are subject to challenge and scrutiny by relevant stakeholders.
- Development of the 2025/26 revenue budget and capital programme included increased engagement and transparency across Group Leaders, and their political groups, to share information throughout each stage of development and as new challenges to the council's financial position arose.
- Monthly Budget Board meetings of Corporate Directors and Service Leads, the Chief Executive and S151 Officer, have taken place throughout 2024/25 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.
- Quarterly reporting of financial performance to Cabinet during 2024/25 has highlighted key financial pressures and risks, prompting the continuation of expenditure controls and management recovery actions with a resulting positive impact on the final outturn position for the financial year.
- Performance against actions from the council's Delivery Plan was reported quarterly to Cabinet during 2024/25.
- 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.
- The council's future target operating model was launched in 2024 and has been communicated across the organisation through staff briefings and the staff conference. The Strategic Transformation Board has been established to finalise work programmes and improvement activity that will support the implementation of the council's new target operating model.
- Enhanced monitoring of children's residential placements has been delivered in 2024/25 through the Children & Young People Directorate's 'Better Outcomes' Panel, chaired by a Senior Officer.

Areas where it is recognised that governance arrangements could be further strengthened include:

- In addition to improvements in performance monitoring arrangements, the council has identified areas for improvements in the integration of social care case management and financial systems to support consistency and accuracy in data used to drive activity and financial forecasts.
- Improved links between All Age Commissioning and operational service areas to ensure joint understanding of commissioned services, to support service developments and enhanced financial management.

A key area for improvement for the council is the continued transformation of children's social care services to address areas identified for improvement following an Ofsted review of the service in July 2022.

In September 2022, the council's Children's Services were rated inadequate and a statutory direction was issued by the Secretary of State and a Commissioner for Children's Services was appointed. The council has responded positively to the findings of these reviews with enhanced governance and oversight arrangements and significant financial investment. Further planned actions to improve are noted below under Significant Governance Issues.

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 2024/25:

 The Workforce Strategy 2024-28, was approved for implementation in April 2024. The Strategy commits to nurturing a culture of excellence, empowerment and growth with the THRIVE core values as the guiding principles to shape the culture and behaviours within the council:

TRUST: developing and maintaining relationships based on a culture of transparency and open communication

HONESTY: demonstrating truthfulness, integrity, and transparency in all communications, decisions, and relationships

RESPONSIBILITY: taking ownership of individual and collective actions, decisions, and delivering on commitments

INCLUSIVITY: embracing diversity, equity and inclusion by recognising and valuing the unique perspectives, backgrounds and experiences of staff, customers and residents

VALUE: upholding high standards, ethics and integrity to guide actions and decisions by demonstrating commitment to creating and delivering value

EMPATHY: demonstrating a genuine and caring understanding of others' feelings, perspectives, and experiences

- A Children & Young People Workforce Strategy, aligned to the Corporate Workforce Strategy with a specific focus on ambitions for staff in the C&YP Directorate, is in place to support permanent recruitment and development of staff internally.
- The council provides a range of learning and development opportunities for staff, delivered through the Learning & Organisational Development Team. This includes Mandatory Training modules as well as opportunities through 'My Learning Hub'.
- In 2024/25, investment in the council's learning offer, shaped by feedback from staff, resulted in a programme of learning across a variety of topics. The All Staff learning offer includes 10 topics covering core skills as well as areas identified as a learning gap in the employee survey and through employee feedback. Themes include: Productivity, Impact & Influence, Change Mindset and Presenting. For Managers and Leaders, an additional suite of training is available to support leadership and management skills. This includes topics such as coaching skills, managing change and performance and delegation and empowerment skills.
- Staff are able to discuss and agree training and development needs through the annual 'My Conversation' process.
- In 2024/25, the Corporate Leadership Team approved a suite of leadership training for leaders at all stages of their careers, which will be implemented in 2025/26: Lead@HC.

- The council has continued to develop and update its financial reporting arrangements during 2024/25, to tailor financial information to the risks of each Directorate, working collaboratively with stakeholders.
- During 2024/25, 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. At the Staff Conference in September 2024, an update by the Director of Finance was shared with all attendees.

Areas where it is recognised that governance arrangements could be further strengthened include:

- The council's leadership development programme (@LeadHC) will be launched in 2025/26 to address gaps in the learning and development offer and strengthen leadership skills and capabilities. The Lead@HC Programme will aim to develop inspirational leaders across four themes: Grow, Aspire, Empower, Innovate.
- A review of the reporting tools available through the council's finance system (Business World) will be undertaken in 2025/26 to increase automation and simplification of financial information to aid budget management and decision making.

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 2024/25:

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.
 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.
- Activity to review and update the council's risk management arrangements was undertaken in 2024/25 to update the Risk Management Strategy and strengthen the management and monitoring of risks across the council.
- This activity has included feedback from the council's external risk management consultants, Corporate Leadership Team Risk Management workshops, facilitated by the council's Internal Auditor's Chief Technical Advisor for Risk and Head of Internal Audit, and engagement with Cabinet Members and Audit & Governance Committee.
- A revised Risk Management Strategy has been completed, incorporating a new Risk Appetite Statement which defines the level of risk the council is willing to accept to deliver the priorities of the Herefordshire Council Plan 2024-28 and annual Delivery Plan.
- The Strategy sets out the approach and principles of risk management, outlining the council's risk appetite, risk management objectives and confirms the roles and responsibilities of elected Members and Officers across the council.
- 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 2024/25: 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 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 it 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.
- Internal financial reporting and monthly Directorate Budget Board meetings have supported early identification and effective management of financial risks during 2024/25; 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.
- A self-assessment against the CIPFA Financial Management Code has been completed in 2024/25 and actions to address areas for improvement has been developed for implementation in 2025/26.

The governance arrangements, as identified above, have been effective in the period from 1 April 2024 to 31 March 2025. 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 2025/26
 to review the council's risk management framework which outlines
 the processes and activities by which risks are identified, evaluated,
 managed, monitored and reported, in line with the revised Risk
 Management Strategy.
- This activity will include engagement through the council's Leadership Group and training for risk owners at all levels within the risk management framework including elected members.

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

Key aspects of the council's governance arrangements during 2024/25:

- 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.
- 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.
- Internal and external recommendations for ongoing monitoring are managed through 'AuditBoard': an integrated tool which is now used by Council Staff, Internal Audit (SWAP) and Members of the Audit & Governance Committee. Training has been provided to users and the Internal Audit in-year quarterly update reports are informed by data recorded in this tool.
- Individual Directorate Delegations of Authority have been reviewed to strengthen and reinforce financial accountability and responsibility.
- The process to assess the equality impact of council decisions, activity and policies has been reviewed during 2024/25 and refreshed Equality Impact Assessment Guidance is available on the

council's intranet for all Officers to consider. In addition, an interactive training session was delivered to the council's Leadership Group in October 2024.

The governance arrangements, as identified above, have been effective in the period from 1 April 2024 to 31 March 2025. Areas where it is recognised that governance arrangements could be further strengthened include:

- A review of the council's Internal Audit Plan for 2025/26, following the approval of the updated Risk Management Strategy and Corporate Risk Register, to ensure that planned work provides adequate coverage of the council's key risks and control environment.
- Integration of equality impact assessments at the initial stages of developing new strategic, policies, functions or services to understand the potential impacts on individuals, and groups, in our communities and ensure effective consideration of equality, diversity and cohesion in all key decision making.
- Equality, Diversity and Inclusion (EDI) training is included in the council's Mandatory Training Programme for 2025; opportunities to enhance and share information to strengthen consideration of equality impact assessments for staff and Members will continue in 2025/26.

Significant Governance Issues

Actions taken to address significant governance challenges during 2024/25 are noted below.

- Improvements in Children's Services: During 2024/25, the council has continued to work hard to deliver the improvements required in Children's Services. In September 2024, Phase 2 of the Children's Services Improvement Plan was endorsed by Cabinet, following engagement and scrutiny of the Plan by the Children & Young People Scrutiny Committee. Findings and feedback from the Ofsted monitoring visit and SEND Area Inspection during the year have been published by the council and Member briefings have taken place to improve awareness and understanding of key challenges and review latest performance. The Children's Improvement Board, has reviewed its terms of reference and membership and has been independently chaired by the Department of Education Commissioner with meetings held on a six-weekly basis. The Children's Commissioner has continued to provide expert insight and guidance throughout the year, undertaking formal six-monthly reviews to present recommendations for improvement. In March 2025, Council unanimously endorsed the Corporate Parenting Strategy 2025-2027 which sets out the council's ambitions, actions and outcomes to achieve as Corporate Parent of children and young people in Herefordshire.
- **Financial Management and Resilience**: Monthly Directorate Budget Boards have provided improved oversight of key cost pressures and challenges in the delivery of savings during 2024/25, 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. This activity has enabled recovery plans to be implemented to have a positive impact on the final outturn position.

The review of governance arrangements during 2024/25 has identified the following areas which will be a key focus for the council's leadership in 2025/26:

- Continued improvement in Children's Services: As the council's number one priority, we will continue to make improvements to the services that we provide to children and their families. We will continue to work to deliver improvements to address Ofsted recommendations and will monitor activity and report on measures of success through the Improvement Plan.
- **Financial Sustainability and Resilience:** The council's financial position continues to be challenging with significant uncertainty in terms of future funding arrangements and allocations across local authorities over the medium term period. Government have confirmed that there will be significant reform of funding arrangements in future years, including a Fair Funding Review and reset of Business Rates during 2025 for implementation from 2026/27. Monitoring of financial position and performance in 2025/26 will include enhanced 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 has set a balanced budget for 2025/26 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 2025/26 to ensure delivery of services
 within the approved budget. Budget Boards, established in 2024/25 will monitor achievement of savings targets, key financial pressures and risks and
 delivery of capital and major projects by Directorate.
- Dedicated Schools Grant: At 31 March 2025, the council's Dedicated Schools Grant (DSG) cumulative deficit is £20.0 million and this is expected to

increase further during 2025/26. 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 2026; beyond the period of the statutory override, any balance on the DSG unusable reserve will transfer back to the council's Earmarked Reserves.

• The council is committed to identifying actions to mitigate the DSG deficit, through monitoring of the impact of actions in the DSG Deficit Management Plan, and by reviewing opportunities to increase sufficiency and reduce the use and cost of out-of-county and independent provision, through the council's capital programme in 2025/26 and 2026/27. The risk of a lack of local special educational needs and disabilities (SEND) placement provision to meet current and future levels of demand, is included in the Corporate Risk Register and the impact of mitigating actions and controls will be reported to Cabinet throughout 2025/26.

The key governance challenges facing the council in 2025/26 will be monitored by the Corporate Leadership Team and Audit & Governance Committee.

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 2023/24, Grant Thornton gave an unqualified audit opinion on the financial statements.

The external auditors work on the council's arrangements to secure value for money in 2023/24 did not identify any significant weaknesses in respect of the themes of financial sustainability and governance. The auditors reported a significant weakness, first identified in 2021/22, which remains in respect of improvement in children's services under the theme of improving economy, efficiency and effectiveness in the use of resources.

Internal audit services are provided 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, associated risks and the risk management process and the council's corporate governance arrangements.

Further assurance is provided by reviews undertaken by external agencies including OFSTED, the Care Quality Commission, the Office of the Information Commissioner and other Local Authority Inspectorates.

For the year ended 31 March 2025, 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 2024 to 31 March 2025. 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 Walker Chief Executive Date: 25/09/2025

Jonathan Lester Leader of the Council Date: 25/09/2025



Title of report: 2024/25 Statement of Accounts

Meeting: Audit and Governance Committee

Meeting date: Thursday 25 September 2025

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 2024/25 Statement of Accounts and associated letter of representation from Grant Thornton, the external auditors.

Recommendation(s)

That:

- a) The 2024/25 Statement of Accounts (at Appendix 1) be approved; and
- b) The letter of representation (at Appendix 2) be signed by the chairperson of the committee and the Director of Finance.

Alternative options

 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

2024/25 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 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 2024/25 and published them on 30 May 2025, 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 10 June 2025.
- 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 2025 and its income and expenditure for the year ended 31 March 2025.
- 5. The financial outturn position reported for 2024/25 is an underspend of £0.5 million against a net budget of £212.3 million (0.2%). The net deficit on the provision of services presented in the comprehensive income and expenditure statement is £16.1 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 has increased by £0.5 million to £10.1 million and earmarked reserves have increased from £73.2 million to £80.7 million. These figures include balances of £11.7 million held for individual maintained schools.
- 7. The cumulative dedicated schools grant (DSG) deficit brought forward from last financial year of £6.1 million has increased by £13.9 million, representing the deficit in 2024/25, to £20.0 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 2024/25 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 2025 which are reflected in the 2024/25 Statement of Accounts.
- 9. A new accounting standard was implemented from 1 April 2024; IFRS 16 Leases. The impact of this is to create a right of use asset and a lease liability on the balance sheet, instead of charging the lease payments to the comprehensive income and expenditure statement. A full review of council contracts and lease contracts was undertaken to determine those in scope of the accounting standard. The impact on the 2024/25 draft Statement of Accounts of the new accounting standard is not material in respect of right of use assets, and the note in the Statement of Accounts reflects this assessment. Grant Thornton have not reported any audit issues relating to the implementation of the new accounting standard.
- 10. 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 £3.4 million, which includes reserves applicable to the minority interest of £0.7 million.

- 11. 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 2025. The team has responded to requests promptly and with high quality working papers.
- 12. 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.
- 13. The approved 2024/25 Annual Governance Statement will be added to the Statement of Accounts attached at Appendix 1.
- 14. Attached at Appendix 2 is the council's Letter of Representation confirming that, to the best of the council's knowledge and belief, the financial statements, at Appendix 1, give a true and fair view in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 and applicable law.

Community impact

15. 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

- 16. 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.
- 17. Whilst this is a decision 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 on the draft accounts has been completed mostly remotely, reducing travel impact and paper usage.

Equality duty

- 18. 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.
- 19. 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

20. There are no new resource implications from this report.

Legal implications

- 21. 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 2 June 2025 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

- 22. 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.
- 23. 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

24. The Statement of Accounts was made available for public inspection for a six week period commencing 2 June 2025. No objections were received.

Appendices

Appendix 1: Statement of Accounts 2024/25 Appendix 2: Letter of representation for 2024/25 Appendix 3: Draft audit opinion for 2024/25

Background papers

None identified.



Contents

Section	Page no.	Section	Page no.
Narrative report	3	Group accounts and notes	92
Statement of responsibilities	18	Group comprehensive income and expenditure statement	92
Financial statements	20	Group balance sheet	93
Comprehensive income and expenditure statement	20	Group movement in reserves statement	94
Balance sheet	21	Group cash flow statement	95
Movement in reserves statement	22	Notes supporting the group accounts	96
Cash flow statement	23	Supplementary accounts	101
Notes to the financial statements	24	Collection fund statement	101
Contents of the notes to the financial statements	24	Notes supporting the collection fund	102
General notes to the financial statements	25	Governance statements	105
Notes supporting the comprehensive income and expenditure	33	Annual governance statement	105
<u>statement</u>			
Notes supporting the balance sheet	49	Independent auditor's report	120
Notes supporting the movement in reserves statement	66	Glossary of terms	127
Notes supporting the cash flow statement	71		
<u>Technical annex</u>	74		



Foreword from the Chief Executive

In my fourth year as Chief Executive, Councillors and staff have continued to work together to deliver improvements against 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.

In February 2024, Council approved its budget for 2024/25 and performance against the budget is set out in this Statement of Accounts and the revenue outturn report presented to Cabinet. Our sustainable financial strategy for 2025/26 and onwards, builds on the prudent approach and robust financial management exercised in 2024/25 and previous years. This strategy aims to preserve and protect the council's future financial resilience and sustainability at a time of increasing cost pressures and uncertainty over future funding arrangements, to ensure the council can achieve an ambitious programme of innovation and improvement 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 strong and resilient position to respond to and withstand future financial pressures and deliver improvements for residents. Some notable successes in 2024/25 included:

- We have continued to make progress to improve the quality of services and improve outcomes for our children and young people; reviews by Ofsted and the Children's Commissioner have recognised evidence of progress and the council's commitment to ensure the voices of children, young people and families are heard and actively involved in service development and delivery.
- The council received additional funding from Arts Council England in 2024 to support the major refurbishment and extension of Hereford Museum and Art Gallery. This exciting project, alongside renovation of the Shirehall as the city's new library and learning centre, will put Herefordshire on the map as a destination for art, history and culture.

- We continued to support residents and businesses across the county: providing financial support to around 11,500 households through the Council Tax Reduction scheme, supporting a range of people through flexible use of the Household Support Fund and delivering a programme of free activities during school holiday periods through the Holiday Activities and Food Programme.
- The Herefordshire Youth Employment Hub officially opened in February, offering advice and support to help young people aged 16-24 into work, education and apprenticeships. The hub, which is a partnership between the council and the Department for Work and Pensions, will provide a positive start to the future working lives of many young people in the county.
- Council staff and partner agencies worked tirelessly to respond to severe weather events in the winter months; minimising the impact of flooding to keep households, businesses and road users safe and supporting vulnerable residents, including providing shelter for those sleeping rough.
- Work has commenced on the development of detailed plans for the first phase of the Hereford Western Bypass. The planned route will ease traffic flow in south Hereford and make it easier to access employment land and support economic growth south of the river.
- Innovation and excellence across the council has received national recognition in 2024/25; the Luston Wetland project was awarded the Local Government Chronicle (LGC) Award for Environmental Services and the Royal Town Planning Institute West Midlands Awards for Planning Excellence, and the council's Finance Team won the Public Finance Award for Excellence in Governance, Reporting and Assurance.

Looking forward to 2025/26 and beyond, the council has set a balanced and realistic budget which is supported by robust financial controls and monitoring arrangements. We will continue to strengthen the council's financial resilience to deliver service improvements and enable the council to take advantage of opportunities to 'get ahead' of risks, financial pressures, planned local government reform and be fit for the future.

Paul Walker, Chief Executive

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 continuing impact of increasing demand for adult and children's social care, temporary accommodation and home to school and SEND transport services has placed the council's resources under significant pressure during 2024/25.

Robust, timely monitoring of the revenue budget and responsible stewardship of financial resources throughout 2024/25 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

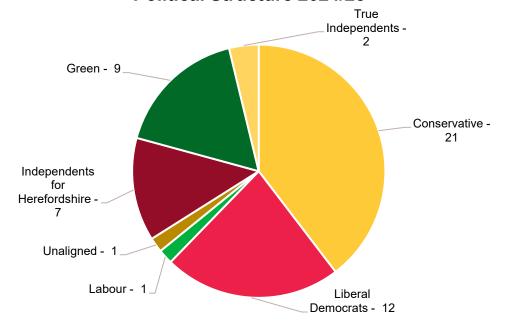
Partnership working is central to Herefordshire Council's success and to delivering the best results for our residents. We are stronger together and the council will always work to build strong, effective partnerships to ensure our county is much more than the sum of its parts.

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 2025:

Political Structure 2024/25



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 services 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.

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. We have strengthened our commissioning practice in 2024/25, supported by a restructure of the All Ages Commissioning Service and have recommissioned supported living and community activity services to modernise the offer of support for working age adults.

Our adult social care services continued to work closely with the hospital to manage effective discharge from hospital throughout the year, reviewing homecare and care home capacity to manage the increasing demand. We have continued to support residents during 2024/25 with financial support provided for vulnerable households, school holiday food vouchers and free activities provided for children in receipt of free school meals plus additional support for eligible households, care leavers and pensioners towards food and energy costs.

Development of the county's cultural offer has continued throughout 2024/25. The redevelopment of Hereford Museum and Art Gallery reached a major milestone in July 2024, when planning permission and listing building consent was granted. Work to develop gallery plans and community engagement activities continues to explore how the museum and gallery can celebrate Herefordshire's unique heritage and identity. Renovation of the Shirehall, to transform one of Hereford's most historic buildings, into a new library and learning centre has also progressed this year and plans are in development to provide improved facilities for learning, digital literacy and cultural activities.

Economy and Environment

Investment in the county's highway network has continued in 2024/25 with £8m invested in resurfacing works and additional investment in a programme of surface dressing 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 and invested in replacement public rights of way structures to enable the reopening of routes across the county so that residents and visitors can access and enjoy the countryside.

We commenced procurement activity for a new provider of public realm services this year, with a view to securing a new contractor from June 2026. This process will evaluate tenders to ensure the council appoints a provider to deliver the best for our communities, keeping roads and public spaces well maintained and safe.

The new waste collection services contract started in September. The services is delivered by a new fleet of vehicles, including two electric refuse collection vehicles, and will see greater reuse of bulky items, weekly collections of recycling for areas with no external storage space and the expansion of commercial recycling bin options.

The council's pioneering Luston Wetland project, which captures and removes phosphate to improve the wellbeing of rivers and enable the trading of credits for new homes, was acknowledged with a Local Government Chronicle (LGC) Award for Environmental Services in June 2024. The Wetlands demonstrates the council's commitment to improving environmental sustainability, tackling river pollution and addressing the gap in housing identified in our Local Plan.

Children and Young People

The transformation and improvement of Children's social care services, to improve outcomes for children and young people across the county, remains the council's number one priority. The Herefordshire's Children's Services and Partnership Improvement Plan Phase 2, endorsed by Cabinet in 2024, will support the service to increase the pace of improvement focusing on four fundamental foundations of good practice: Building relationships, Quality of assessments, Quality of plans and planning and Supervision and management oversight.

Ofsted Monitoring visits have taken place throughout 2024/25 and the DfE appointed Children's Service Commissioner has continued to monitor progress in the delivery of improvements. Following each visit, findings and the evaluation of progress made have informed changes to working practices and the Improvement Plan has been updated to ensure that planned activity addresses the priority improvement areas identified by Ofsted. Strengthened financial management in the Directorate has had a positive impact on the budget outturn position and delivery of in-year savings targets.

Our Financial Performance

Revenue Summary

The council receives funding from three main sources:

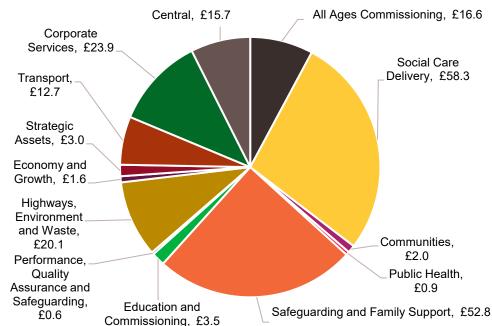
- Government grants
- Council tax
- Business rates

The council also generates income from fees and charges from the services it provides. The charts below show the funding received in 2024/25 and how these funds were spent on services in the year:

Gross funding 2024/25 £557.5m

Non Domestic rates, £36.0 charges, £48.5 Council Tax, £141.4 Other income, £8.2 Capital government grants, £279.8 government grants, £43.6

Net expenditure 2024/25 £212.3m



2024/25 Revenue Outturn

In February 2024, the council approved a net revenue budget of £212.8 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 an underspend of £0.5 million (0.2% of budget) in 2024/25 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	76.2	77.8	1.6
Children and Young People	59.7	56.9	(2.8)
Economy and Environment	26.7	25.3	(1.4)
Corporate Services	22.2	23.9	1.7
SEN&Home to School Transport	9.3	12.7	3.4
Directorate Total	194.1	196.6	2.5
Central, Treasury Management	16.4	15.7	(0.7)
Supplementary Budget	2.3	-	(2.3)
Total	212.8	212.3	(0.5)

The Community Wellbeing Directorate budget delivered an overspend of £1.6 million (2.0%) against its £76.2 million net budget after application of £4.0 million from the Budget Resilience Reserve. The Directorate has managed significant cost pressures throughout 2024/25 due to increased demand and complexity of need 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.

The Directorate will continue to respond to these challenges in 2025/26 through robust management of high-cost adult social care packages, increased collaboration with health and community partners to maximise funding arrangements and improved utilisation of existing care contracts.

The 2024/25 revenue budget included additional investment of £17.6 million for Children & Young People services to provide sufficient funding to meet growing demand, greater complexity, national challenges in workforce recruitment and retention and increased financial constraints.

The Children & Young People Directorate delivered an underspend of £2.8 million on its £59.7 million budget in 2024/25 and delivered planned savings of £2.3 million in full through reductions in high-cost placements and conversion of agency social workers to permanent posts, creating a more stable and resilient workforce.

The budget amendment, approved in February 2024, allocated additional budget of £2.3 million to the Children & Young People Directorate to mitigate against non-delivery of savings in 2024/25. As savings have been delivered in full, the additional budget has not been used and is presented as an underspend which contributes to the overall underspend position for the year.

The Economy and Environment Directorate achieved an underspend of £1.4 million on its £26.7 million net budget. The outturn position comprises overspends in Planning and Development Control offset by reduced energy costs, reduced waste disposal contract expenditure as a result of reduced in-year tonnage rates and additional income from fees and charges for services delivered by the Directorate.

The Corporate Services Directorate delivered an overspend of £1.7 million which represents savings targets not delivered in 2024/25, staffing cost

pressures and an increase in the external audit scale fee as set by the Public Sector Audit Appointments.

Expenditure against the Home to School and Special Educational Needs and Disability (SEND) transport services budget delivered an overspend of £3.4 million in 2024/25. 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.

Central and Treasury Management budgets achieved a total underspend of £0.7 million which represents positive variances as a result of prudent treasury management activities, in line with the approved Treasury Management Strategy and dividend income.

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

Capital Investment Programme

In February 2024, the council approved a revised capital budget of £160.0 million for 2024/25. 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 £97.0 million and included the following significant capital projects:

- **Fastershire**: a partnership between Herefordshire Council and Gloucestershire County Council to bring faster broadband to homes and businesses across the two counties. Phase 2, to extend coverage across the counties, was completed in 2024/25.
- **Hereford City Centre Transport Package**: design work for the delivery of the transport hub is complete, planning has been awarded and construction will begin in 2025/26; this project is supported by increased funding of £6.3 million from the Levelling Up Fund.
- Resurfacing Herefordshire Highways & Local Transport Plan (LTP) Grant: £4.9 million of resurfacing work has been undertaken for highways across the county plus additional spend of £15.5 million in highways improvements from the annual Local Transport Plan Grant.
- Home Energy Efficiencies: £3.6 million in Home Upgrade Grants have been distributed in 2024/25 to enable residents to benefit from more energy efficient heating systems and energy efficient home improvement. This project has now completed and will be replaced by the Warm Homes Fund.
- Schools Maintenance Grant: over £3.3 million was spent on improvements to schools including new roofs, internal works and replacement boilers.
- **Brookfield School**: Construction work has commenced to deliver planned improvements, due to complete in October 2025.
- **Waste**: Purchase of a fleet of vehicles, including two fully electric vehicles, for the new waste collection contract and improvements to the depot, along with new EV charging points took place in 2024/25.
- **UK Shared Prosperity and Rural Prosperity Grants:** A total of £2.4 million in capital grants were allocated across local businesses to support growth across the county.

2024/25 Capital Outturn

The total expenditure on capital projects in 2024/25 was £74.1 million which represents 76% of the revised budgeted programme. This expenditure was financed by capital grants of £45.8 million, prudential borrowing of £23.2 million, revenue reserves of £0.2 million and capital receipts of £4.9 million.

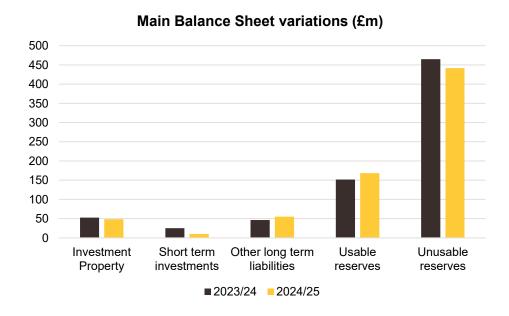
The £22.9 million underspend comprises £5.2 million of projects that have delivered below project budgets and a further £17.7 million of budgets to be carried forward to 2025/26.

Summary Financial Position	Approved budget £m	Revised budget £m	Expenditure £m	Variance £m
Community Wellbeing Delivery Board	20.4	10.9	6.5	(4.4)
IT Services Partnership Board	1.8	2.1	1.0	(1.1)
Growth Delivery Board	55.3	24.4	18.1	(6.3)
Infrastructure Delivery Board	62.7	50.5	39.8	(10.7)
Commissioning Delivery Board	19.8	9.1	8.7	(0.4)
Total	160.0	97.0	74.1	(22.9)

Assets and Liabilities

The Balance Sheet summarises the council's financial position at 31 March 2025 and reports the assets, liabilities and reserves which show what the council owns and how much it owes. The council's net assets have decreased by £6.8 million from £616.7 million at 31 March 2024 to £609.9 million at 31 March 2025. The key balance sheet variations are noted in the following table and chart:

Summary Financial Position	31 March 2024	31 March 2025	Movement
	£m	£m	£m
Assets (what we own)	872.2	890.7	18.5
Liabilities (what we owe)	(255.5)	(280.8)	(25.3)
Net financial position (assets less liabilities)	616.7	609.9	(6.8)
The net financial position is held in reserves as follows:			
General reserves (usable)	(151.8)	(168.4)	(16.6)
Other reserves (unusable)	(464.9)	(441.5)	23.4
Total reserves	(616.7)	(609.9)	6.8



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 £25.0 million, over a 20-year term, was secured in March 2025 to support delivery of the council's capital programme and liquidity.

Total borrowing at 31 March 2025, including short term loans, was £138.8 million (£121.0 million at 31 March 2024). Principal debt repayments of £7.4 million were made and interest of £4.7 million was paid on all council borrowing during 2024/25. Net borrowing (borrowing less short-term investments) was £128.4 million as at 31 March 2025 compared with £95.6 million as at 31 March 2024.

Other Long Term Liabilities

The movement in long term liabilities results from an increase in the Private Finance Initiative (PFI) liability, as a result of remeasurement on the implementation of IFRS16 Leases in 2024/25, and a reduction in the pension fund liability.

Pension Fund Liability

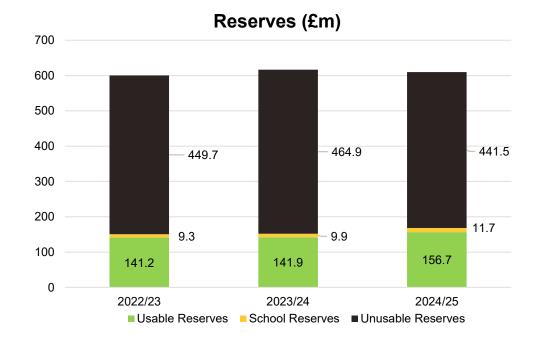
Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund. Herefordshire's proportion of the net liability of the Worcestershire County Council Pension Fund as at 31 March 2025 is £7.1 million (£8.2 million at 31 March 2024) on an International Accounting Standard (IAS) 19 basis.

The pension fund position is reviewed every three years and was last revalued as at 31 March 2022, where the in-service contribution rate increased to 18.8% (previously 17.6%) and the deficit contribution decreased to 1.2% (previously 10.4%). 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 such as insurance. 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.

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 decrease in unusable reserves is largely due to the in-year 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 for 2025/26 builds on the prudent approach and robust financial management exercised in 2024/25 and prior years: to preserve and protect the council's future financial resilience and sustainability at a time of increasing cost pressures, reduced Central Government grants, uncertainty over future funding arrangements and planned reorganisation of the local government framework.

A sustainable financial strategy has been developed for 2025/26 and onwards, to ensure the council can achieve an ambitious programme of innovation and improvement to deliver the best for Herefordshire.

The council has developed a 4-year Medium Term Financial Strategy (MTFS) for the period from 2025/26 to 2028/29 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:

- Improvement in Children's Services: The council continues to work with the Department for Education and the appointed Commissioner for Children's Services to address required transformation and improvement. The Phase 2 Children's Services and Partnership Improvement Plan was endorsed by Cabinet in July 2024 introducing a Quality Assurance Framework of measures (key performance indicators, service user feedback and audit activity) to enable future progress to be monitored. Performance against the Improvement Plan is monitored and reported on a quarterly basis. The supporting Financial Plan has been revised for 2025/26 to ensure the Children & Young People Directorate is able to continue to deliver savings whilst sustaining improvement in service delivery.
- 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.
- 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 2025/26. In year monitoring of performance and relevant activity data enables Directorates to forecast trends and identify changes in demand. The Budget Resilience Reserve, established in 2024/25,

represents a contingency budget for 2025/26 and future years to mitigate the risks of excessive cost pressures and volatility in demand.

- Volatility in government funding streams: The government settlement for 2025/26 is a one-year settlement; the MTFS reflects prudent estimates and assumptions in the financial planning over the medium term period where it is acknowledged that uncertainty over future funding exists. Government has confirmed that there will be significant reform of funding arrangements in future years, including a Fair Funding Review and reset of Business Rates. The MTFS will be updated to reflect the impact for the council as further information is received.
- 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 deficit sits as a negative unusable reserve on the balance sheet as permitted via a statutory instrument. This enables all local authorities to ringfence DSG deficits from the council wider financial position in the statutory accounts. This instrument expires at the end of 2025/26, with an implied risk to the General Fund and overall financial position if the council is required to fund the deficit. Measures to contain the deficit and mitigate future cost and demand pressures will be managed through the DSG Deficit Management Plan and the financial impact of agreed mitigations will be monitored and reported throughout the year as part of the council's routine budget monitoring processes and risk management framework.

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 2024/25, 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 99.

Rachael Sanders, Director of Finance and Section 151 Officer 25/09/2025

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 2025 and its income and expenditure for the year ended 31 March 2025.

Rachael Sanders, Director of Finance and Section 151 Officer 25/09/2025

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 2024/25.

David Hitchiner, Chair of the Audit and Governance Committee 25/09/2025



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.

Restated* 2023/24	Restated* 2023/24	Restated* 2023/24	Comprehensive income and expenditure	Note	2024/25 Gross	2024/25 Gross	2024/25 Net
Gross	Gross	Net			expenditure	income	expenditure
expenditure	income	expenditure			£m	£m	£m
£m	£m	£m					
190.8	(132.5)	58.3	Children and Young People		209.6	(147.2)	62.4
134.6	(67.5)	67.1	Community Wellbeing		147.6	(77.2)	70.4
103.7	(30.3)	73.4	Economy and Environment		99.3	(36.1)	63.2
79.0	(41.0)	38.0	Corporate Services		70.4	(42.3)	28.1
508.1	(271.3)	236.8	Net cost of services	8	526.9	(302.8)	224.1
6.4	-	6.4	Other operating expenditure	10	35.3	-	35.3
9.4	(19.7)	(10.3)	Financing and investment income and expenditure	11	11.4	(8.2)	3.2
-	(225.9)	(225.9)	Taxation and non-specific grant income	12	-	(246.5)	(246.5)
523.9	(516.9)	7.0	(Surplus)/deficit on the provision of services	9.1	573.6	(557.5)	16.1
		(10.6)	(Surplus)/deficit on revaluation of non-current assets	19.3			(8.2)
		(12.9)	Re-measurement of the net defined benefit liability	T1.3			(1.1)
		(23.5)	Other comprehensive (income) and expenditure				(9.3)
		(16.5)	Total comprehensive (income) and expenditure				6.8

^{*}See Note 5 for Prior Period Adjustment

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 2024 £m	Balance sheet	Note	31 March 2025 £m
685.8	Property, plant and equipment	19.1	697.5
52.6	Investment property	20	48.5
0.5	Intangible assets		0.7
4.1	Heritage assets		4.4
35.8	Long term debtors	T2.2	35.6
778.8	Long term assets		786.7
25.4	Short term investments	T2.2	10.4
0.3	Inventories		0.3
42.8	Short term debtors	22	54.7
24.9	Cash and cash equivalents	23	38.6
93.4	Current assets		104.0

31 March 2024 £m	Balance sheet	Note	31 March 2025 £m
(8.0)	Short term borrowing	T2.3	(8.3)
(56.6)	Short term creditors	24.1	(56.8)
(8.4)	Short term grants receipts in advance	24.2	(6.7)
(3.5)	Short term provisions		(3.6)
(1.8)	Cash and cash equivalents	23	(3.3)
(78.3)	Current liabilities		(78.7)
(1.7)	Long term provisions		(1.4)
(113.0)	Long term borrowing	T2.3	(130.5)
(16.0)	Capital grants receipts in advance	25	(14.9)
(46.5)	Other long term liabilities	T2.3	(55.3)
(177.2)	Total long term liabilities		(202.1)
616.7	Net assets		609.9
(151.8)	Usable reserves	29	(168.4)
(464.9)	Unusable reserves	30	(441.5)
(616.7)	Total reserves		(609.9)

Rachael Sanders, Director of Finance and Section 151 Officer 25/09/2025

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 2023	(9.6)	(81.8)	(91.4)	(40.1)	(19.0)	(150.5)	(449.7)	(600.2)
Total comprehensive income and expenditure	7.0	-	7.0	-	-	7.0	(23.5)	(16.5)
Adjustments between accounting basis and funding basis under regulations (note 28)	1.6	-	1.6	1.9	(11.8)	(8.3)	8.3	-
Transfers (to)/from earmarked reserves (note 31)	(8.6)	8.6	-	-	-	-	-	-
(Increase)/decrease in year	-	8.6	8.6	1.9	(11.8)	(1.3)	(15.2)	(16.5)
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)
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.

2023/24 £m	Cash flow statement	Note	2024/25 £m
7.0	Net (surplus)/deficit on the provision of services		16.1
(35.0)	Adjust net (surplus)/deficit on the provision of services for non-cash movements	32.1	(61.4)
36.1	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	32.2	45.7
8.1	Net cash flows from operating activities		0.4
(13.2)	Net cash flows from investing activities	33	1.8
5.3	Net cash flows from financing activities	34.1	(14.4)
0.2	Net (increase)/decrease in cash and cash equivalents		(12.2)
23.3	Cash and cash equivalents at 1 April		23.1
23.1	Cash and cash equivalents at 31 March	23	35.3
(0.2)	Net increase/(decrease) in cash and cash equivalents		12.2

Contents of the notes to the financial statements

Note no.	Section	Page no.	Note no.	Section	Page no.
	Notes to the financial statements	25		Notes supporting the balance sheet	49
	General notes to the financial statements	25	19	Property, plant and equipment	49
1	General accounting policies	25	20	Investment property	57
2	Accounting standards that have been issued but have not yet been adopted	25	21	Capital expenditure and capital financing	58
3	Critical judgements in applying accounting policies	26	22	Short term debtors	59
4	Assumptions made about the future and major sources of estimation uncertainty	27	23	Cash and cash equivalents	60
5	Prior period adjustments, changes in accounting policies and estimates and errors	29	24	Short term creditors and grants receipts in advance	60
6	Events after the reporting period	30	25	Capital grants receipts in advance	61
7	Related party transactions	31	26	Private finance initiatives (PFI)	62
	Notes supporting the comprehensive income and expenditure statement	33	27	Leases	65
8	Expenditure and funding analysis	33		Notes supporting the movement in reserves statement	66
9	Nature of income and expenditure and segmental reporting	37	28	Adjustments between accounting basis and funding basis under regulations	66
10	Other operating expenditure	39	29	Movement in usable reserves	68
11	Financing and investment income and expenditure	39	30	Movement in unusable reserves	69
12	Taxation and non-specific grant income	40	31	Movement in earmarked reserves	70
13	Grant income	41		Notes supporting the cash flow statement	71
14	Dedicated schools grant	42	32	Cash flows from operating activities	71
15	Pooled budgets	43	33	Cash flows from investing activities	72
16	Officers' remuneration and senior employees' remuneration	44	34	Cash flows from financing activities and reconciliation of liabilities arising from financing activities	72
17	Termination benefits	47		Technical annex	74
18	External audit costs	48	T1	Pension schemes	74
			T2	Financial instruments	83

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 2024/25, 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:

- The Effects of Changes in Foreign Exchange Rate (Amendments to IAS 21) issued in August 2023
- Insurance Contracts (IFRS 17) issued in May 2017
- Property, Plant and Equipment (adaptation and interpretation of IAS 16)
- Intangible Assets (adaptation and interpretation of IAS 38)

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

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 £216.2 million as at 31 March 2025 (£240.6 million as at 31 March 2024). 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.

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 2025 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 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 £34.9 million from the closing net book value of £697.5 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.
Property, plant and equipment depreciation	Deprecation is charged to the comprehensive income and expenditure statement in line with the expected benefit of each asset over its estimated useful economic life (UEL). Assets are depreciated over useful lives that are dependent upon assumptions about usage, obsolescence and the level of repairs and maintenance that will be incurred in relation to individual assets. Assets valued as part of the rolling programme are assigned a UEL by the professional valuer; the UEL of assets not subject to external valuation is estimated by officers with appropriate subject knowledge.	The effect on the depreciation charge of changes in the estimated useful live of assets can be measured: A reduction of one year in the assessed useful life would increase the depreciation charge by approximately £6.0 million with a corresponding decrease in the property, plant and equipment net book value on the balance sheet from the closing net book value of £697.5 million.

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 (£495.6 million at 31 March 2025) 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 £8.0 million. A 0.1% increase in the rate of pay growth used would increase the liability by £0.2 million. An increase of one year in assumed life expectancy used would increase the liability by £19.9 million.

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.

5.1. Directorate restructure

The 2023/24 comprehensive income and expenditure statement has been restated to adjust for restructuring of services between directorates that occurred during 2024/25, the impact on the net expenditure is shown in the table below.

Comprehensive income and expenditure line affected	Per 2023/24 Financial Statements £m	Prior Period Adjustment £m	Per 2024/25 Financial Statements comparative £m
Children and Young People	71.1	(4.9)	66.2
Community Wellbeing	76.2	(0.5)	75.7
Economy and Environment	67.6	5.8	73.4
Corporate Services	38.4	(0.4)	38.0

This restatement has also impacted Note 8 Expenditure and funding analysis and Note 9.2 Segmental reporting.

5.2. Grants reclassification

The 2023/24 comprehensive income and expenditure statement has been restated to adjust for grant income between Taxation and non-specific grant income and directorates, the impact on the net expenditure is shown in the table below.

Comprehensive income and expenditure line affected	Per 2023/24 Financial Statements * £m	Prior Period Adjustment £m	Per 2024/25 Financial Statements comparative £m
Children and Young People	66.2	(7.9)	58.3
Community Wellbeing	75.7	(8.6)	67.1
Taxation and non-specific grant income	(242.4)	16.5	(225.9)

^{*}after prior period adjustment in Note 5.1

This restatement has also impacted Note 8 Expenditure and funding analysis, Note 12 Taxation and non-specific grant income and Note 13 Grant income.

__

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.

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 2024/25 (2023/24 £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 2024/25, 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 2024/25, 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 2024/25, the council spent £19.4 million (2023/24 £17.6 million) on services from the company and received £1.0 million (2023/24 £0.7 million) in income from the company. This is reflected in the single entity comprehensive income and expenditure statement. There is a debtor of £0.6 million (2023/24 £0.6 million) and a creditor of £1.2 million (2023/24 £1.0 million) outstanding at 31 March 2025 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.

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 £2.5 million to WME in 2024/25 (2023/24 £2.4 million) and received £0.1 million (2023/24 £0.4 million); these transactions are reflected in the comprehensive income and expenditure statement. There is a creditor of £0.1 million (2023/24 £0.3 million) and a debtor of £0.5 million (2023/24 £0.4 million) outstanding at the year-end and these balances are 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.

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	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		8.1	

Expenditure and funding analysis	2023/24 Net expenditure for internal reporting £m	Restated* 2023/24 Adjustments to arrive at Net expenditure chargeable to the general fund £m	Restated* 2023/24 Net expenditure chargeable to the general fund £m	Restated* 2023/24 Adjustments between accounting basis and funding basis under regulations £m	Restated* 2023/24 Net expenditure in the CIES £m
Children and Young People	63.5	1.6	65.1	(6.8)	58.3
Community Wellbeing	71.8	(4.7)	67.1	-	67.1
Economy and Environment	26.5	37.2	63.7	9.7	73.4
Corporate Services	40.2	3.4	43.6	(5.6)	38.0
Net cost of services	202.0	37.5	239.5	(2.7)	236.8
Other income and expenditure	(193.3)	(37.6)	(230.9)	1.1	(229.8)
(Surplus)/deficit on the provision of services	8.7	(0.1)	8.6	(1.6)	7.0
Opening general fund balance at 1 April			(91.4)		
(Surplus)/deficit			8.6		
Closing general fund balance at 31 March			(82.8)		
Note		8.2		8.1	

^{*}See Note 5 for Prior Period Adjustment

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

Restated* 2023/24 Adjustments for capital purposes £m	Restated* 2023/24 Adjustments for pensions purposes £m	2023/24 Adjustments for other purposes £m	Restated* 2023/24 Total adjustments £m	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
(10.3)	(1.6)	5.1	(6.8)	Children and Young People	(2.6)	(1.3)	13.9	10.0
0.6	(0.6)	-	-	Community Wellbeing	1.5	(0.5)	-	1.0
10.2	(0.5)	-	9.7	Economy and Environment	26.7	(0.4)	-	26.3
(6.0)	0.4	-	(5.6)	Corporate Services	(40.3)	0.9	-	(39.4)
(5.5)	(2.3)	5.1	(2.7)	Net cost of services	(14.7)	(1.3)	13.9	(2.1)
(0.9)	0.8	1.2	1.1	Other income and expenditure	29.4	0.7	(3.9)	26.2
(6.4)	(1.5)	6.3	(1.6)	(Surplus)/deficit on the provision of services	14.7	(0.6)	10.0	24.1

^{*}See Note 5 for Prior Period Adjustment

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.

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

Restated* 2023/24 Capital adjustments not included in internal reporting £m	Restated* 2023/24 Other adjustments not included in internal reporting £m	2023/24 Recharges included in internal reporting but removed for financial statements £m	2023/24 Reserve movement not included in internal reporting £m	Restated* 2023/24 Total adjustments £m	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
13.9	(13.7)	-	1.4	1.6	Children and Young People	8.3	(12.4)	-	(0.4)	(4.5)
0.9	(10.2)	(0.6)	5.2	(4.7)	Community Wellbeing	2.8	(14.3)	(0.6)	3.7	(8.4)
22.2	11.9	(0.9)	4.0	37.2	Economy and Environment	0.8	(2.0)	(4.7)	4.8	(1.1)
9.8	1.2	4.2	(11.8)	3.4	Corporate Services	41.5	(18.3)	8.1	(3.4)	27.9
46.8	(10.8)	2.7	(1.2)	37.5	Net cost of services	53.4	(47.0)	2.8	4.7	13.9
(37.1)	10.6	(13.1)	2.0	(37.6)	Other income and expenditure	(39.2)	15.9	(4.9)	6.8	(21.4)
9.7	(0.2)	(10.4)	0.8	(0.1)	(Surplus)/deficit on the provision of services	14.2	(31.1)	(2.1)	11.5	(7.5)

^{*}See Note 5 for Prior Period Adjustment

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.

9.1. Nature of income and expenditure

2023/24 £m	Nature of income and expenditure	2024/25 £m
	Income	
(41.3)	Fees, charges and other service income	(48.5)
(13.4)	Trading and investment income	(2.9)
(6.3)	Interest and investment income	(5.3)
(167.3)	Income from council tax and non-domestic rates	(177.4)
(288.6)	Government grants and contributions	(323.4)
(516.9)	Total Income	(557.5)
	Expenditure	
150.5	Employee benefits expenses	146.4
288.3	Other service expenses	317.5
9.2	Support services recharges (net)	10.0
0.8	Loss on disposal of non-current assets	29.4
60.1	REFCUS, depreciation, amortisation and impairment	53.0
0.3	Trading and investment expenditure	3.0
9.1	Interest expense	8.4
5.6	Precepts and levies	5.9
523.9	Total expenditure	573.6
7.0	(Surplus)/deficit on the provision of services	16.1

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.

9.2. Segmental reporting

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

2023/24	Restated* Children and Young People £m	Restated* Community Wellbeing £m	Restated* Economy and Environment £m	Restated* Corporate Services £m	Restated* Total £m
Fees, charges and other service income	(6.6)	(14.3)	(20.3)	(0.1)	(41.3)
Employee benefits expenses	102.9	18.4	13.0	16.2	150.5
Premises costs	8.0	(1.2)	4.4	0.1	11.3
Transport costs	0.9	0.5	10.2	-	11.6
Supplies and services	20.1	12.7	4.9	8.2	45.9
Third party payments	38.6	96.3	32.2	7.7	174.8
Transfer payments	7.5	3.0	-	34.0	44.5
REFCUS, depreciation, amortisation and impairment	3.7	5.1	46.4	4.9	60.1

^{*}See Note 5 for Prior Period Adjustment

3

Notes supporting the comprehensive income and expenditure statement

10. Other operating expenditure

2023/24 £m	Other operating expenditure	2024/25 £m
5.4	Parish council precepts	5.7
0.2	Levies	0.2
0.8	(Gains)/losses on the disposal of non-current assets	29.4
6.4	Total other operating income and expenditure	35.3

11. Financing and investment income and expenditure

2023/24 £m	Financing and investment income and expenditure	2024/25 £m
8.3	Interest payable and similar charges	7.7
0.8	Net interest of the defined net pension liability	0.7
(6.3)	Interest receivable	(5.3)
(13.1)	Income and expenditure of trading accounts and investment properties	0.1
(10.3)	Total financing and investment income and expenditure	3.2

12. Taxation and non-specific grant income

Restated* 2023/24 £m	Taxation and non-specific grant income	2024/25 £m
(133.2)	Council tax income	(141.4)
(34.1)	Non-domestic rates income	(36.0)
(23.1)	Non-ring fenced government grants	(25.5)
(35.5)	Capital grants and contributions	(43.6)
(225.9)	Total taxation and non-specific grant income	(246.5)

^{*}See Note 5 for Prior Period Adjustment

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.

13. Grant income

Restated* 2023/24 £m	Grant income	2024/25 £m
(1.0)	Revenue support grant	(1.0)
(22.1)	Other non-ring fenced grants	(24.5)
(35.5)	Capital grants	(43.6)
(58.6)	Total grants credited to taxation and non-specific grant income	(69.1)
(107.9)	Department for Education	(120.5)
(43.5)	Department for Levelling up, Housing and Communities	(47.5)
(31.2)	Department for Work and Pensions	(30.8)
(8.0)	Department for Transport	(1.4)
(1.5)	Department for Energy, Security and Net Zero	(3.6)
(1.7)	Department for Environment, Food and Rural affairs	(1.2)
(13.0)	Department for Health	(11.8)
(30.4)	Other grants and contributions	(37.5)
(230.0)	Total grants credited to services	(254.3)
(288.6)	Total grant income	(323.4)

^{*}See Note 5 for Prior Period Adjustment

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.

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 2022. 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.

2023/24 Total £m	Dedicated schools grant	2024/25 Central expenditure £m	2024/25 Individual schools budget £m	2024/25 Total £m
(159.7)	Final DSG allocation before academy and high needs recoupment	-	-	(174.8)
59.9	Less academy and high needs figure recouped	-	-	67.2
(99.8)	Total DSG after academy and high needs recoupment for the year	-	-	(107.6)
-	Brought forward from previous year	-	-	-
-	Less carry forward to following year agreed in advance	-	-	-
(99.8)	Agreed initial budgeted distribution for the year	(41.1)	(66.5)	(107.6)
0.1	In-year adjustments	0.1	1.0	1.1
(99.7)	Final budgeted distribution for the year	(41.0) 54.9	(65.5) - 65.5	(106.5) 54.9 65.5
25.3	Less actual central expenditure			
79.4	Less actual individual schools budget deployed to schools			
5.0	In year carry forward to following year	13.9	-	13.9
-	Add carry forward agreed in advance	-	-	-
5.0	Carried forward to following year	-	-	13.9
1.1	DSG unusable deficit reserve at the end of the prior year	-	-	6.1
5.0	In year addition to the DSG unusable deficit reserve	-	-	13.9
6.1	Total DSG unusable deficit reserve at the end of the year	-	-	20.0

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.

2023/24 Pooled income £m	2023/24 Pooled expenditure £m	2023/24 Net pooled expenditure £m	2023/24 HC managed £m	2023/24 ICB managed £m	Pooled budgets	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
(27.0)	26.8	(0.2)	16.7	10.1	Consolidated better care fund	(30.0)	29.9	(0.1)	17.6	12.3
(5.9)	7.4	1.5	6.3	1.1	Consolidated Children's Services	(5.9)	5.9	-	5.0	0.9
(1.7)	1.9	0.2	0.8	1.1	Integrated community equipment store	(1.9)	1.7	(0.2)	0.7	1.0
(34.6)	36.1	1.5	23.8	12.3	Total	(37.8)	37.5	(0.3)	23.3	14.2

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.

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.

2023/24	2023/24		Salary banding	2024/25	2024/25	2024/25
Number of	Number of	Total number		Number of	Number of	Total number
school staff	non-school			school staff	non-school	
	staff				staff	
61	53	114		62	47	109
35	34	69	, ,	42	40	82
20	21	41		24	40	64
13	14	27	£65,001 to £70,000	14	25	39
5	5	10	£70,001 to £75,000	11	6	17
10	1	11	£75,001 to £80,000	11	1	12
5	1	6	£80,001 to £85,000	1	3	4
2	5	7	£85,001 to £90,000	5	2	7
2	2	4	£90,001 to £95,000	-	1	1
-	4	4	£95,001 to £100,000	2	5	7
1	2	3	£100,001 to £105,000	1	1	2
1	-	1	£105,001 to £110,000	-	1	1
1	2	3	£110,001 to £115,000	-	1	1
-	1	1	£115,001 to £120,000	1	1	2
-	-	-	£120,001 to £125,000	-	1	1
-	2	2	£135,001 to £140,000	-	-	-
-	-	-	£140,001 to £145,000	-	1	1
-	-	-	£145,001 to £150,000	-	1	1
-	1	1	£160,001 to £165,000	-	-	-
-	-	-	£165,001 to £170,000	-	1	1
-	1	1	£235,001 to £240,000	-	-	-
156	149	305	Total number of employees over £50,000	174	178	352

Notes supporting the comprehensive income and expenditure statement

16.2. Senior employees' remuneration

2024/25	Note	Salary, fees and allowances £000	Compensation for loss of office/benefits in kind £000	Pension contributions £000	Total £000
Chief Executive (Paul Walker)		169	-	-	169
Director of Resources and Assurance/Section 151 Officer	1	34	-	5	39
Director of Governance and Law/Monitoring Officer		117	-	-	117
Corporate Director, Children and Young People	2	112	-	21	133
Corporate Director, Community Wellbeing		150	-	28	178
Corporate Director, Economy and Environment		142	-	27	169
Director of Public Health	3	26	-	5	31
Director of HR and OD		97	-	18	115
Interim Director of Strategy and Performance	4	17	-	3	20
Director of Finance/Section 151 Officer	5	71	-	14	85
Total		935	-	121	1,056

Notes:

- 1. The Director of Resources and Assurance left on 30 June 2024; the role was replaced by the Director of Finance Role
- 2. 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
- 3. 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
- 4. The secondment as Director of Strategy and Performance ended 4 June 2024
- 5. The Director of Finance role commenced 29 July 2024

7

Notes supporting the comprehensive income and expenditure statement

2023/24	Note	Salary, fees and allowances £000	Compensation for loss of office/benefits in kind £000	Pension contributions £000	Total £000
Chief Executive (Paul Walker)		165	-	-	165
Director of Resources and Assurance/Section 151 Officer		114	-	21	135
Director of Governance and Law/Monitoring Officer		114	-	-	114
Corporate Director, Children and Young People	6	139	99	26	264
Corporate Director, Community Wellbeing		139	-	24	163
Corporate Director, Economy and Environment		139	-	26	165
Director of Public Health		103	-	19	122
Director of HR and OD		95	-	18	113
Interim Director of Strategy and Performance	7	78	-	15	93
Total		1,086	99	149	1,334

Notes:

- 6. The Corporate Director, Children and Young People left on 31 March 2024.
- 7. The Director of Strategy and Performance commenced in post from 5 June 2023.

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.

2023/24	2023/24	2023/24	2023/24	Exit package cost	2024/25	2024/25	2024/25	2024/25
Number of	Number of	Total	Total cost of	banding	Number of	Number of	Total	Total cost of
compulsory	other agreed	number of	exit		compulsory	other	number of	exit
redundancies	departures	exit	packages		redundancies	agreed	exit	packages
		packages	£000			departures	packages	£000
1	28	29	230	£0 to £20,000	6	25	31	252
-	5	5	152	£20,001 to £40,000	3	6	9	263
-	1	1	60	£60,001 to £80,000	-	1	1	73
-	1	1	93	£80,001 to £100,000	-	-	_	-
1	35	36	535	Total	9	32	41	588

14

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.

2023/24 £000	External audit costs	2024/25 £000
344	Scale fee incurred for external audit services	391
48	Expected additional fees for external audit services (to be approved by PSAA)	-
392	Total audit fees	391
57	Non audit fees confirmed relating to 20/21	-
29	Non audit fees confirmed relating to 21/22	-
29	Non audit fees confirmed relating to 22/23	10
-	Non audit fees confirmed relating to 23/24	58
115	Total non audit fees	68
507	Total external audit fees	459

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 so that there is no impact on the level of council tax.

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 22 and 56 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.

Revaluations

Asset categories are revalued at least 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. Further revaluations are carried out where there have been material changes.

The council's valuations as at 31 March 2025 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.

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.

19.1 Property, plant and equipment movements

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 initial 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

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 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

At 31 March 2024	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	387.9	39.2	1.6	3.9	0.8	433.4	41.3
Additions	6.5	2.3	-	0.9	0.9	10.6	0.4
Disposals	(1.0)	-	-	-	-	(1.0)	-
Revaluation increases/(decreases) recognised in the revaluation reserve	10.9	-	-	(0.3)	-	10.6	0.8
Revaluation increases/(decreases) recognised in the surplus/deficit on provision of services	(1.6)	(0.2)	-	(1.3)	-	(3.1)	0.1
Reverse accumulated depreciation	(5.5)	(1.1)	-	-	-	(6.6)	(1.2)
Asset transfers	(1.6)	-	-	1.1	0.5	-	-
Closing balance at 31 March	395.6	40.2	1.6	4.3	2.2	443.9	41.4
Depreciation							
Opening balance at 1 April	(0.6)	(4.4)	-	-	-	(5.0)	(0.5)
Charge for the year	(6.0)	(2.1)	-	-	-	(8.1)	(1.4)
Reverse accumulated depreciation	5.5	1.1	-	-	-	6.6	1.2
Closing balance at 31 March	(1.1)	(5.4)	-	-	-	(6.5)	(0.7)
Closing net book value at 31 March	394.5	34.8	1.6	4.3	2.2	437.4	40.7
Opening net book value at 1 April	387.3	34.8	1.6	3.9	0.8	428.4	40.8

At 31 March 2024	£m
Infrastructure assets opening net book value at 1 April	261.7
Additions	23.1
Depreciation charge for the year	(36.4)
Infrastructure assets closing net book value at 31 March	248.4
Net book value of PPE excluding infrastructure assets	437.4
Total net book value of PPE on the balance sheet at 31 March	685.8

19.2 Revaluations

The carrying amount of assets on the rolling programme held at 31 March 2025 total £472.1 million. The effective date of the revaluations are as follows:

Valued as at	Carrying amount of revalued assets
	£m
31 March 2025	299.6
31 March 2024	132.3
31 March 2023	40.0
31 March 2022	0.2
Total	472.1

19.3 Revaluation reserve

31 March 2024 £m	Revaluation reserve	31 March 2025 £m
(168.6)	Balance at 1 April	(177.9)
(12.0)	Revaluations upwards	(12.3)
1.1	Revaluations downwards	4.1
0.3	Depreciation of revaluations	0.3
1.3	Disposal of revaluations	10.8
(177.9)	Balance at 31 March	(175.0)

19.4 Capital commitments

At 31 March 2025 the council had significant capital commitments totalling £5.4 million (31 March 2024: £2.9 million).

- Design and construction of Wetland at Tarrington £1.0 million
- Design and Professional fees for Western Bypass Phase 1 £1.1 million; and
- Construction works at Brookfield school £3.3m

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 under 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.

19.6 Capital adjustment account

31 March 2024 £m	Capital adjustment account	31 March 2025 £m
(303.3)	Balance at 1 April	(300.9)
	Capital financing:	
(4.0)	Capital receipts	(6.9)
(23.7)	Capital grants and contributions	(31.6)
(3.2)	Revenue contributions to capital expenditure	(0.6)
(10.9)	Minimum revenue provision	(12.8)
(41.8)	Total capital financing	(51.9)
(7.3)	Downward revaluations charged to comprehensive income and expenditure statement	6.4
44.6	Depreciation charged to comprehensive income and expenditure statement	33.7
3.6	Revenue expenditure funded from capital under statute	1.6
0.4	Disposal of non-current assets	20.7
2.9	Other adjustments	1.6
(300.9)	Balance at 31 March	(288.8)

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. Management aim for a minimum return of 4% on investment assets.

31 March 2024 £m	Investment property	31 March 2025 £m
	Cost or valuation	
41.9	Opening balance at 1 April	52.6
0.5	Additions	0.2
(0.2)	Disposals	(1.4)
10.4	Net gains/losses from fair value adjustments	(2.9)
52.6	Closing balance at 31 March	48.5

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 25	48.5
Investment properties at 31 March 24	52.6

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.

2023/24 £m	Capital expenditure and capital financing	2024/25 £m
304.4	Opening capital financing requirement	303.1
	Capital investment	
33.5	Property, plant and equipment	57.3
0.3	Intangible assets	0.2
0.5	Investment properties	0.2
12.4	Revenue expenditure funded from capital under statute	15.8
0.2	Assets acquired under PFI and lease contracts	13.8
0.6		(4.8)
	Sources of finance	
(0.9)	Capital receipts	(4.9)
(1.7)		(1.4)
(32.5)	Government grants and other contributions	(45.8)
	Sums set aside from revenue	
(2.8)	Direct revenue contributions	(0.1)
(10.9)		(12.8)
303.1		320.6
	Explanation of movements in year	
11.1	, 0	23.3
-	Long term debtors	(5.4)
0.2		13.8
(1.7)		(1.4)
(10.9)		(12.8)
(1.3)	Adjusted to services	17.5

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 2024 £m restated*	Short term debtors	31 March 2025 £m
	Trade receivables	18.6
2.3	Prepayments	2.0
0.8	Non-domestic rates	0.9
6.5	Council Tax	6.4
4.7	VAT	8.0
6.8	Central government	7.5
7.4	Other receivables	11.3
42.8	Total	54.7

^{*}prior year comparatives restated to reflect current year classifications.

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

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 2024 £m	Cash and cash equivalents	31 March 2025 £m
	Cash held by the council	6.9
18.7	18.7 Short term deposits	
24.9	Total	38.6
(1.8)	Bank current accounts	(3.3)
23.1	Total	35.3

24.1 Short term creditors

31 March 2024 £m restated*	Short term creditors	31 March 2025 £m
(2.6)	Trade payables	(7.1)
(5.7)	Receipts in advance	(2.8)
(3.7)	Employee leave accrual	(0.8)
(1.9)	Council Tax	(2.5)
(7.0)	Non-domestic rates	(6.3)
(3.3)	Goods received not invoiced accrual	(7.8)
(4.6)	Payroll	(4.6)
(27.8)	Other payables	(24.9)
(56.6)	Total	(56.8)

^{*}prior year comparatives restated to reflect current year classifications.

Other payables includes capital creditors, sundry creditors, deposits and payroll holding codes.

24.2 Short term grants receipts in advance

31 March 2024 £m	Short term grants receipts in advance	31 March 2025 £m	
(7.8)	Central government bodies	(5.4)	
(0.1)	Other local authorities	(0.7)	
(0.5)	All other bodies	(0.6)	
(8.4)	Total	(6.7)	

25. Capital grants receipts in advance

31 March 2024 £m	Capital grants receipts in advance	31 March 2025 £m
(1.6)	Central government bodies	(1.4)
(14.4)	Other grants and contributions	(13.5)
(16.0)	Total	(14.9)

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.

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 £5.4 million (£5.0 million in 2023/24).

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 2024 Total £m	PFI liabilities	31 March 2025 Shaw Healthcare £m	31 March 2025 Whitecross school £m	31 March 2025 Waste disposal £m	31 March 2025 Total £m
(40.0)	Balance outstanding at 1 April	(5.4)	(8.4)	(24.0)	(37.8)
(40.0)		\ /	(0.4)	, ,	
-	Remeasurement of opening liability under IFRS 16	(9.8)	-	(0.5)	(10.3)
(40.0)	Adjusted opening balance at 1 April	(15.2)	(8.4)	(24.5)	(48.1)
2.2	Payments during the year	1.1	1.0	1.1	3.2
(37.8)	Balance outstanding at 31 March	(14.1)	(7.4)	(23.4)	(44.9)

26.2. PFI paymentsThe 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	13.0	0.5	3.4	2.6	19.5
Within 2 to 5 years	43.0	1.9	29.5	7.2	81.6
Within 6 to 10 years	17.4	1.1	9.1	1.3	28.9
Balance outstanding at 31 March	73.4	3.5	42.0	11.1	130.0

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 2024	Operating lease receipts	31 March 2025
£m		£m
(4.2)	Not later than 1 year	(3.8)
(11.8)	Between 1 and 5 years	(10.8)
(29.0)	Over 5 years	(28.8)
(45.0)	Total due in future years undiscounted	(43.4)

_

Notes supporting the movement in reserves statement

28. Adjustments between accounting basis and funding basis under regulations

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

2023/24	General fund £m	Earmarked reserves £m	Capital receipts reserve £m	Capital grants unapplied £m	Movement in unusable reserves £m
Depreciation of non-current assets	(44.6)	-	-	-	44.6
Impairment and revaluation losses of non-current assets	7.3	-	-	-	(7.3)
Amount by which council tax and non-domestic rate income adjustment included in the comprehensive income and expenditure statement is different from the amount taken to the general fund in accordance with regulations	(0.7)	-	-	-	0.7
Statutory provision for the repayment of debt (MRP)	10.9	-	-	-	(10.9)
Amount by which pension costs calculated in accordance with IAS 19 are different from the contributions due under the pension scheme regulations	1.5	-	-	-	(1.5)
Capital grants and contributions credited to the comprehensive income and expenditure statement not applied to capital financing	24.9	-	-	(24.9)	-
Capital grants and contributions applied to capital financing	10.6	-	-	13.1	(23.7)
Other individual non material adjustments	(8.3)	-	1.9	-	6.4
Total adjustments between accounting basis and funding basis under regulations	1.6	-	1.9	(11.8)	8.3

29. Movement in usable reserves

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)

31 March 2024	Purpose of reserve	Note	1 April 2023 £m	Transfers out £m	Transfers in £m	31 March 2024 £m
General fund	Revenue resources available to meet future commitments		(9.6)	-	-	(9.6)
Earmarked reserves	Set aside from the general fund for future expenditure to support specific corporate priorities	31	(81.8)	30.0	(21.4)	(73.2)
Capital receipts reserve	Capital receipts available to meet future capital expenditure		(40.1)	4.0	(2.1)	(38.2)
Capital grants unapplied	Capital grants available to meet future capital expenditure		(19.0)	13.1	(24.9)	(30.8)
Total			(150.5)	47.1	(48.4)	(151.8)

30. Movement in unusable reserves

31 March 2025	Purpose of reserve	Note	1 April 2024 £m	Transfers out £m	Transfers in £m	31 March 2025 £m
Short term absences	Balances relating to accumulated holiday due but not taken in		3.7	(3.7)	0.8	0.8
account	year			, ,		
Capital adjustment	Timing differences on capital financing and consumption	19.6	(300.9)	64.0	(51.9)	(288.8)
account			, ,		` '	, ,
Collection fund	Differences in accounting treatment for council tax and		(6.0)	(8.9)	8.0	(6.9)
adjustment account	business rates between IFRS and statutory arrangements					
Financial	Valuation gains and losses on financial instruments carried at		0.4	-	-	0.4
instruments	fair value					
adjustment account						
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	Accumulated deficit on the dedicated schools grant	14	6.1	-	13.9	20.0
account	-					
Total			(464.9)	(50.9)	74.3	(441.5)

31 March 2024	Purpose of reserve	Note	1 April 2023 £m	Transfers out £m	Transfers in £m	31 March 2024 £m
Short term absences account	Balances relating to accumulated holiday due but not taken in year		3.3	(3.3)	3.7	3.7
Capital adjustment account	Timing differences on capital financing and consumption	19.6	(303.3)	33.3	(30.9)	(300.9)
Collection fund adjustment account	Differences in accounting treatment for council tax and business rates between IFRS and statutory arrangements		(6.7)	(9.2)	9.9	(6.0)
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	24.1	(60.9)	46.5	9.7
Revaluation reserve	Unrealised gains/losses arising from revaluations of assets	19.3	(168.6)	2.7	(12.0)	(177.9)
DSG adjustment account	Accumulated deficit on the dedicated schools grant	14	1.1	-	5.0	6.1
Total			(449.7)	(37.4)	22.2	(464.9)

31. Movement in earmarked reserves

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)

31 March 2024	Purpose of reserve	1 April 2023 £m	Transfers out £m	Transfers in £m	31 March 2024 £m
Business rates reserve	To smooth the impact of changes in business rates retention, collection and funding	(13.1)	-	(6.6)	(19.7)
Schools' balances	Balances held for individual maintained schools	(9.3)	-	(0.6)	(9.9)
Waste reserve	To support increased future costs on waste disposal and collection services	(9.4)	4.3	(1.7)	(6.8)
Financial resilience reserve	Amounts set aside to support financial risk	(1.2)	0.2	(2.1)	(3.1)
Unused grants carried forward	Unspent grant monies earmarked for future expenditure	(17.6)	8.7	(8.4)	(17.3)
Other individually non material reserves		(31.2)	16.8	(2.0)	(16.4)
Total		(81.8)	30.0	(21.4)	(73.2)

Notes supporting the cash flow statement

32. Cash flows from operating activities

32.1 Adjustments for non-cash movements

2023/24 £m	Adjustments for non-cash movements	2024/25 £m
6.1	Movement in debtors	11.7
(5.7)	Movement in creditors	(1.8)
(37.3)	Depreciation, amortisation and impairment of non-current assets	(40.1)
(1.3)	Carrying amount of non-current assets sold	(31.5)
1.5	Net charges for retirement benefits	0.1
1.7	Movement in provisions	0.2
(35.0)	Total adjustment for non-cash movements	(61.4)

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

2023/24 £m	Adjustments for investing and financing activities	2024/25 £m
0.6	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2.1
35.5	Any other items for which the cash effects are investing or financing cash flows	43.6
36.1	Total adjustment for investing and financing activities	45.7

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

2023/24 £m	Cash flows from investing activities	2024/25 £m
34.4	Purchase of property, plant and equipment, investment property and intangible assets	56.7
(0.6)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1.1
65.0	Purchase of short term investments	45.0
(77.5)	Proceeds from short term investments	(60.0)
(35.0)	Other receipts from investing activities	(43.2)
0.5	Other payments for investing activities	2.2
(13.2)	Total cash flows from investing activities	1.8

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

34.1 Cash flows from financing activities

2023/24	Cash flows from financing activities	2024/25
£m		£m
2.2	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	3.6
-	Cash receipts of short term and long term borrowing	(25.0)
3.1	Repayments of short and long term borrowing	7.0
5.3	Total cash flows from financing activities	(14.4)

Notes supporting the cash flow statement

34.2 Reconciliation of liabilities arising from financing activities

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

Financing activities	1 April 2023 £m	Financing cash flows £m	Other non- financing cash flows £m	31 March 2024 £m
Long term borrowing	(119.9)	3.1	3.8	(113.0)
Short term borrowing	(4.0)	-	(4.0)	(8.0)
PFI liabilities	(40.0)	2.2	-	(37.8)
Total liabilities from financing activities	(163.9)	5.3	(0.2)	(158.8)
Note	T2.3	34.1		T2.3

T1. Pension schemes

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of 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

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 Teachers Pensions Agency. 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 2024/25 the council paid employer contributions of £7.8 million (2023/24 £7.4 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 2024/25 (£0.5 million in 2023/24).

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.

T1.3. Transactions relating to pension schemes

2023/24 £m	Transactions relating to pension schemes	2024/25 £m
	Comprehensive income and expenditure statement	
	Cost of services	
11.2	Current service cost	11.4
-	(Gain)/loss from settlements and curtailments	0.2
1.6	Past service cost	1.5
	Financing and investment income and expenditure	
0.5	Net interest expense	0.5
0.3	Administration expenses	0.3
(0.7)	Other pension transactions	-
12.9	Total post-employment benefit charged to the surplus/deficit on the provision of services	13.9
	Other comprehensive income and expenditure	
3.7	Remeasurement arising on changes in experience	(5.9)
0.2	Remeasurement arising on changes in financial assumptions	(87.3)
(9.1)	Remeasurement arising on changes in demographic assumptions	(1.0)
(31.0)	Return on plan assets	17.6
25.3	Impact of pension net asset ceiling	75.5
(2.0)	Other pension transactions	-
(12.9)	Total post-employment benefit charged to other comprehensive income and expenditure	(1.1)
	Movement in reserves statement	
(12.9)	Reversal of net charges made to the surplus/deficit on the provision of services	(13.9)
16.6	Amount charged to the general fund balance for employer's contribution payable in the year	13.8

The council made an up-front payment of employer's contributions payable to the scheme of £1.5 million in June 2023 for the three years 2023/24 to 2025/26. This has resulted in a difference between the value of the pensions reserve and the net pension liability on the balance sheet as noted in the table below.

Reconciliation between balance on pension reserve and net pension liability	Note	31 March 2025 £m
Balance on the pension reserve for LGPS	T1.10	7.6
2025/26 upfront payment		(0.5)
Balance on the net pension liability for LGPS	T1.4	7.1

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

31 March 2024 £m	Pension assets and liabilities	Note	31 March 2025 £m
573.1	Present value of the defined benefit obligation	T1.5	495.6
(590.2)	Fair value of plan assets	T1.6	(590.5)
25.3	Effect of net asset ceiling	T1.6	102.0
8.2	Net liability arising from defined benefit obligation – LGPS		7.1
0.5	Unfunded teachers pension liability		0.4
8.7	Total net pension liability		7.5

As at 31 March 2025, 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 £102.0 million (2023/24 £25.3 million).

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

31 March 2024 £m	Scheme liabilities	31 March 2025 £m
555.9	Opening balance at 1 April	573.1
11.2	Current service cost	11.4
-	Settlements and curtailments	(4.3)
1.6	Past service cost	1.5
26.0	Interest cost	27.3
0.3	Administration expenses	0.3
4.3	Contribution by scheme participants	4.4
(5.2)	Remeasurement arising from changes in assumptions	(94.2)
(19.5)	Benefits/transfers paid	(23.9)
(1.5)	Early payment of pension deficit	-
573.1	Closing balance at 31 March	495.6

1/

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

31 March 2024 £m	Scheme assets	31 March 2025 £m
532.2	Opening balance at 1 April	590.2
25.6	Interest income	28.1
31.0	Return on plan assets	(17.6)
-	Settlements and curtailments	(4.5)
16.6	Contribution from employer	13.8
4.3	Contributions from employees	4.4
(19.5)	Benefits/transfers paid	(23.9)
590.2	Closing balance at 31 March	590.5

31 March 2024 £m	Asset ceiling	31 March 2025 £m
-	Opening balance at 1 April	(25.3)
-	Interest on the impact of the net asset ceiling	(1.2)
(25.3)	Impact of pension net asset ceiling	(75.5)
(25.3)	Closing balance at 31 March	(102.0)

The actual return on scheme assets in the year was £10.6 million, 1.8% of the period end assets (2023/24 £59.9 million, 10.6%).

28

Technical annex

T1.7. Local government pension scheme assets

	Scheme assets	Quoted Y/N	31 March 2025 £m
	Cash		
9.7	Cash instruments	N	9.2
	Equity instruments		
63.4	Other	Y	60.8
0.3	Private equity	N	1.6
	Debt securities		
16.2	UK government	Y	12.8
	Property		
32.5	UK property debt	N	33.1
13.7	Overseas property debt	N	14.4
	Investment funds and unit trusts		
325.9	Equities	Y	321.5
18.6	Bonds	Y	18.8
99.2	Infrastructure	N	106.3
10.7	Other	N	12.0
590.2	Closing fair value of scheme assets		590.5

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 2022. The principal assumptions used by the actuary have been:

31 March 2024	Assumptions	31 March 2025
	Mortality assumptions	
	Longevity at 65 for current pensioners (in years)	
21.3	Men	21.2
23.6	Women	23.6
	Longevity at 65 for future pensioners (in years)	
22.6	Men	22.5
25.5	Women	25.4
	Financial assumptions	
2.8%	Rate of CPI inflation	2.8%
4.3%	Rate of increase in salaries	4.3%
2.8%	Rate of increase in pensions	2.8%
4.8%	Rate for discounting scheme liabilities	5.8%

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 2026 is £12.9 million.

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 2024 £m	Pensions reserve	31 March 2025 £m
24.1	Balance at 1 April	9.7
(36.2)	Return on plan assets	(103.1)
13.6	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	13.8
(16.6)	Employer's pension contributions and direct payments to pensioners payable in the year	(13.8)
(0.5)	Employer's pension contributions – early payment adjustment	(0.6)
25.3	Impact of pension net asset ceiling	102.0
9.7	Balance at 31 March	8.0
9.2	Local government pension scheme	7.6
0.5	Teachers pension scheme	0.4
9.7	Balance at 31 March	8.0

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.

2023/24 Financial Iiabilities £m	2023/24 Financial assets £m	2023/24 Total £m	Income, expense, gains and losses	2024/25 Financial Iiabilities £m	2024/25 Financial assets £m	2024/25 Total £m
			Interest payable and similar charges			
4.8	-	4.8	On loans	4.7	-	4.7
3.5	-	3.5	On PFI liabilities	3.0	-	3.0
8.3	-	8.3	Total expenditure in surplus/deficit on the provision of services	7.7	-	7.7
			Interest receivable			
-	(1.7)	(1.7)	On loans	-	(1.9)	(1.9)
-	(3.7)	(3.7)	On investments	-	(2.9)	(2.9)
-	(5.4)	(5.4)	Total income in surplus/deficit on the provision of services	-	(4.8)	(4.8)
8.3	(5.4)	2.9	Net (gain)/loss for the year	7.7	(4.8)	2.9

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 2024 Per balance sheet £m	31 March 2024 Financial instruments £m	Financial assets	31 March 2025 Per balance sheet £m	31 March 2025 Financial instruments £m
33.2	33.2	Long term debtors – loans	32.8	32.8
2.6	-	Long term debtors – PFI lifecycle costs	2.8	-
35.8	33.2	Total long term debtors	35.6	32.8
25.4	25.4	Short term investments	10.4	10.4
25.4	25.4	Total short term investments	10.4	10.4
24.9	24.9	Cash and cash equivalents	38.6	38.6
24.9	24.9	Total cash and cash equivalents	38.6	38.6
34.6	34.6	Short term debtors – Sales invoices and contractual rights	42.8	42.8
16.9	-	Short term debtors – Statutory debts (council tax, vat)	20.9	-
2.3	-	Short term debtors – prepayments	2.0	-
(11.0)	(11.0)	Short term debtors – bad debt provisions	(11.0)	(11.0)
42.8	23.6	Total short term debtors	54.7	31.8
128.9	107.1	Total assets	139.3	113.6

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 2024		Financial liabilities	31 March 2025	31 March 2025
Per balance sheet £m	Financial instruments		Per balance sheet	Financial instruments
~	£m		£m	£m
(1.8)	(1.8)	Cash and cash equivalents	(3.3)	(3.3)
(1.8)	(1.8)	Total cash and cash equivalents	(3.3)	(3.3)
(0.1)	(0.1)	Short term borrowing – bank loans	(0.1)	(0.1)
(7.9)	(7.9)	Short term borrowing – public works loan board	(8.2)	(8.2)
(8.0)	(8.0)	Total short term borrowing	(8.3)	(8.3)
(30.6)	(30.6)	Short term creditors – invoiced amounts and other contractual liabilities	(36.7)	(36.7)
(10.0)	-	Short term creditors – statutory liabilities (PAYE)	(9.7)	-
(15.0)	-	Short term creditors – accruals and receipts in advance	(9.3)	-
(1.0)	-	Short term creditors – funds and deposits held	(1.1)	-
(56.6)	(30.6)	Total short term creditors	(56.8)	(36.7)
(12.4)	(12.4)	Long term borrowing – bank loans	(12.4)	(12.4)
(100.6)	(100.6)	Long term borrowing – public works loan board	(118.1)	(118.1)
(113.0)	(113.0)	Total long term borrowing	(130.5)	(130.5)
(37.8)	(37.8)	Other long term liabilities – PFI and leases	(47.8)	(47.8)
(8.7)	-	Other long term liabilities – pensions liability	(7.5)	-
(46.5)	(37.8)	Total other long term liabilities	(55.3)	(47.8)
(225.9)	(191.2)	Total liabilities	(254.2)	(226.6)

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
- 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).

31 March 2024 Carrying amount £m	31 March 2024 Fair value (premature repayment rate) £m	31 March 2024 Fair value (new Ioan rate) £m	Fair value	Fair value hierarchy input level	31 March 2025 Carrying amount £m	31 March 2025 Fair value (premature repayment rate) £m	31 March 2025 Fair value (new loan rate) £m
			Financial assets				
33.2	33.2	33.2	Long term debtors	2	32.8	32.8	32.8
25.4	25.4	25.4	Short term investments	n/a	10.4	10.4	10.4
24.9	24.9	24.9	Cash and cash equivalents	n/a	38.6	38.6	38.6
23.6	23.6	23.6	Short term debtors	n/a	31.8	31.8	31.8
107.1	107.1	107.1	Total financial assets		113.6	113.6	113.6
			Financial liabilities				
(108.5)	(105.6)	(96.4)	Public works loan board	2	(126.3)	(119.0)	(109.7)
(12.5)	(13.4)	(10.7)	Bank loans (LOBOs)	2	(12.5)	(13.2)	(9.4)
(1.8)	(1.8)	(1.8)	Cash and cash equivalents	n/a	(3.3)	(3.3)	(3.3)
(30.6)	(30.6)	(30.6)	Short term creditors	n/a	(36.7)	(36.7)	(36.7)
(37.8)	(36.3)	(36.3)	PFI liabilities and finance leases	2	(47.8)	(44.2)	(44.2)
(191.2)	(187.7)	(175.8)	Total financial liabilities		(226.6)	(216.4)	(203.3)

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. Following the fiscal events of autumn 2022 and the subsequent period of significant market volatility 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 2024/25 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 2024 £m	Credit risk	31 March 2025 £m
10.3	Less than 3 months	10.6
1.3	3 to 6 months	1.7
1.4	6 months to 1 year	3.1
4.4	More than 1 year	6.0
17.4	Total	21.4

The general impairment allowance for debtors has increased by £0.1 million to £0.6 million.

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 2024 £m	Liquidity risk	31 March 2025 £m
(8.0)	Less than 1 year	(8.7)
(6.2)	Between 1 and 2 years	(7.7)
(12.9)	Between 2 and 5 years	(11.1)
(20.8)	Between 5 and 10 years	(29.9)
(73.1)	More than 10 years	(81.4)
(121.0)	Total	(138.8)

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 2025.

Sensitivity analysis	1% increase in interest rates
Increase in interest payable on borrowing	-
Increase in interest receivable on investment balances	(0.6)
Decrease in fair value of borrowing	9.8



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.

Restated* 2023/24 Gross expenditure £m	Restated* 2023/24 Gross income £m	Restated* 2023/24 Net group expenditure £m	Group comprehensive income and expenditure	2024/25 Gross expenditure £m	2024/25 Gross income £m	2024/25 Net group expenditure £m
189.5	(132.5)	57.0	Children and Young People	207.4	(147.2)	60.2
129.3	(67.5)	61.8	Community Wellbeing	143.0	(77.2)	65.8
101.8	(29.9)	71.9	Economy and Environment	98.7	(35.4)	63.3
95.1	(48.9)	46.2	Corporate Services	84.2	(49.3)	34.9
515.7	(278.8)	236.9	Net cost of services	533.3	(309.1)	224.2
6.4	-	6.4	Other operating income and expenditure	35.3	-	35.3
9.4	(19.8)	(10.4)	Financing and investment income and expenditure	11.4	(8.4)	3.0
-	(225.9)	(225.9)	Taxation and non-specific grant income	-	(246.5)	(246.5)
531.5	(524.5)	7.0	(Surplus)/deficit on the provision of services	580.0	(564.0)	16.0
		(10.6)	(Surplus)/deficit on revaluation of non- current assets			(8.2)
		(12.9)	Re-measurement of the net defined benefit liability			(1.1)
		(23.5)	Other comprehensive (income) and expenditure			(9.3)
		(16.5)	Total comprehensive (income) and expenditure			6.7

^{*}See Note G5 for Prior Period Adjustment

There is a minority interest of 20% in the subsidiary. There is £nil (2023/24 £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 2024 £m	Balance sheet	31 March 2025 £m
689.8	Property, plant and equipment	701.6
52.6	Investment property	48.5
0.5	Intangible assets	0.7
4.1	Heritage assets	4.4
35.8	Long term debtors	35.6
782.8	Long term assets	790.8
25.4	Short term investments	10.4
0.3	Inventories	0.3
43.3	Short term debtors	55.5
26.3	Cash and cash equivalents	42.0
95.3	Current assets	108.2

31 March 2024 £m	Balance sheet	31 March 2025 £m
(8.0)	Short term borrowing	(8.3)
(59.2)	Short term creditors	(60.8)
(8.4)	Short term grants receipts in advance	(6.7)
(3.5)	Short term provisions	(4.5)
(1.8)	Cash and cash equivalents	(3.3)
(80.9)	Current liabilities	(83.6)
(1.7)	Long term provisions	(1.4)
(113.0)	Long term borrowing	(130.5)
(16.0)	Capital grants receipts in advance	(14.9)
(46.5)	Other long term liabilities	(55.3)
(177.2)	Total long term liabilities	(202.1)
620.0	Net assets	613.3
(155.1)	Usable reserves	(171.8)
(464.9)	Unusable reserves	(441.5)
(620.0)	Total reserves	(613.3)

There is a minority interest of 20% in the subsidiary. There is £0.7 million (2023/24 £0.7 million) included in Usable reserves that is attributable to the minority interest.

Rachael Sanders, Director of Finance and Section 151 Officer 25/09/2025

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	Earmark ed reserves £m	Total General fund £m	Capital receipts reserve £m	Capital grants unapplie d £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 2023	(9.6)	(81.8)	(91.4)	(40.1)	(19.0)	(150.5)	(449.7)	(600.2)	(3.3)	(603.5)
Total comprehensive income and expenditure	(9.9)	-	(9.9)	-	-	(9.9)	(23.5)	(33.4)	16.9	(16.5)
Adjustments between group accounts and authority accounts	16.9	-	16.9	-	-	16.9	-	16.9	(16.9)	-
Net (increase)/decrease before transfers	7.0	-	7.0	-	-	7.0	(23.5)	(16.5)	-	(16.5)
Adjustments between accounting basis and funding basis under regulations	1.6	-	1.6	1.9	(11.8)	(8.3)	8.3	-	-	-
Transfers (to)/from earmarked reserves	(8.6)	8.6	-	-	-	-	-	-	-	-
(Increase)/decrease in year	-	8.6	8.6	1.9	(11.8)	(1.3)	(15.2)	(16.5)	-	(16.5)
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)

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.

2023/24 £m	Group cash flow	2024/25 £m
7.0	Net (surplus)/deficit on the provision of services	16.0
(35.9)	Adjust net (surplus)/deficit on the provision of services for non-cash movements	(62.0)
36.1	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	45.7
7.2	Net cash flows from operating activities	(0.3)
(9.2)	Net cash flows from investing activities	0.5
5.3	Net cash flows from financing activities	(14.4)
3.3	Net (increase)/decrease in cash and cash equivalents	(14.2)
27.8	Cash and cash equivalents at 1 April	24.5
24.5	Cash and cash equivalents at 31 March	38.7
(3.3)	Net increase/(decrease) in cash and cash equivalents	14.2

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.

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	2023/24 £m	2024/25 £m	Balance sheet	31 March 2024 £m	31 March 2025 £m
Turnover	(25.8)	(26.6)	Non-current assets	4.0	4.1
(Profit) on ordinary activities before taxation	-	(0.1)	Current assets	3.4	6.0
Tax on profit on ordinary activities	-	-	Liabilities due within one year	(4.1)	(6.7)
(Profit) for the financial year after taxation	-	(0.1)	Liabilities due after more than one year	-	-
Other comprehensive income and expenditure	-	-	Net assets	3.3	3.4
Total comprehensive income and expenditure	-	(0.1)	Reserves	(3.3)	(3.4)

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.

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

Corporation tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the statement of comprehensive income, profit and loss, except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax for the prior period. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects either accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

G5. Group prior period adjustment

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

G5.1 Directorate restructure

The 2023/24 group comprehensive income and expenditure statement has been restated to adjust for restructuring of services between directorates that occurred during 2024/25, the impact on the net expenditure is shown in the table below.

Group comprehensive income and expenditure line affected	Per 2023/24 Financial Statements £m	Prior Period Adjustment £m	Per 2024/25 Financial Statements comparative £m
Children and Young People	69.8	(4.9)	64.9
Community Wellbeing	70.9	(0.5)	70.4
Economy and Environment	67.0	4.9	71.9
Corporate Services	45.7	0.5	46.2

G5.2 Grants reclassification

The 2023/24 comprehensive income and expenditure statement has been restated to adjust for grant income between Taxation and non-specific grant income and directorates, the impact on the net expenditure is shown in the table below.

Group comprehensive income and expenditure line affected	Per 2023/24 Financial Statements* £m	Prior Period Adjustment £m	Per 2024/25 Financial Statements comparative £m
Children and Young People	64.9	(7.9)	57.0
Community Wellbeing	70.4	(8.6)	61.8
Taxation and non-specific grant income	(242.4)	16.5	(225.9)

^{*}after prior period adjustment in Note G5.1



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 council to retain 49% of the county's business rates.

2023/24	Collection fund	Note	2024/25	2024/25	2024/25
Total £m			Council tax £m	Business rates £m	Total £m
٤١١١	Amounts required to be credited to the collection fund		2,111	٤١١١	٨١١١
159.9	Council tax	C2	169.1	-	169.1
41.3	Business rates income	C1	-	49.1	49.1
4.5	Transitional protection payments receivable		-	2.1	2.1
205.7	Total		169.1	51.2	220.3
	Amounts required to be debited from the collection fund				
	Precepts, demands and shares				
21.2	Central government		-	21.9	21.9
7.1	Hereford and Worcester fire authority		7.0	0.4	7.4
147.7	Herefordshire Council		135.0	21.4	156.4
5.4	Parish and town councils		5.7	-	5.7
18.8	West Mercia police		20.0	-	20.0
	Contribution towards previous year's surplus				
2.2	Central government		-	1.4	1.4
0.1	Hereford and Worcester fire authority		-	-	-
3.5	Herefordshire Council		-	1.4	1.4
0.2	West Mercia police		-	-	-
	Charges to collection fund				
0.3	Cost of collection allowance		-	0.3	0.3
0.9	Write offs of uncollectable debt		0.3	0.3	0.6
1.1	Increase/(decrease) of bad debt provision		0.4	0.6	1.0
(2.2)	Changes in provision for appeals		-	(0.6)	(0.6)
2.2	Other transfers to the general fund		-	2.3	2.3
208.5	Total		168.4	49.4	217.8
(2.8)	Surplus/(deficit) for the year		0.7	1.8	2.5
10.5	Balance bought forward		3.4	4.3	7.7
7.7	Balance carried forward	C3	4.1	6.1	10.2

Notes supporting the collection fund statement

C1. Business rates income

The total non-domestic rateable value at the year-end was £149.6 million and the national non-domestic rate multiplier for 2024/25 was 49.9p for the small business rate multiplier and 54.6p for the standard business rate multiplier.

Business rates income	2024/25 £m
Annual debit	77.1
Less	
Empty allowances	(1.7)
Transitional relief	(2.1)
Discretionary relief	(0.8)
Mandatory relief	(6.0)
Small business rate relief	(9.3)
Funded reliefs	(8.0)
Interest on refunds	(0.1)
Total	49.1

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 2024/25 was £2,311.60 including fire, police and parish precepts, with a range of between £2,250.48 and £2,440.73. The council tax base used for setting the council tax in 2024/25 was 71,999.97. The Band D equivalents in each valuation band are shown in the table below:

Band	Valuation range	Charge factor	Band D equivalent
Α	Up to £40,000	6/9	5,545.48
В	£40,001 to £52,000	7/9	11,751.95
С	£52,001 to £68,000	8/9	12,670.92
D	£68,001 to £88,000	9/9	11,973.81
E	£88,001 to £120,000	11/9	13,771.13
F	£120,001 to £160,000	13/9	10,141.56
G	£160,001 to £320,000	15/9	5,830.29
Н	Over £320,001	18/9	314.83
Total			71,999.97

Council tax income	2024/25 £m
Council tax debit	203.9
Banding change	5.3
Less	
Discounts	(17.2)
Exemptions	(6.9)
Council tax reduction	(15.7)
Disablement relief	(0.3)
Total	169.1

20

Notes supporting the collection fund statement

C3. Collection fund surplus/(deficit)

The Collection Fund surplus at 31 March 2025 is split as follows:

Collection fund surplus/(deficit)	Council tax £m	Business rates £m	Total £m
Central government	-	3.0	3.0
Hereford and Worcester fire authority	0.2	0.1	0.3
Herefordshire Council	3.5	3.0	6.5
West Mercia police	0.4	-	0.4
Total	4.1	6.1	10.2



Introduction

The Annual Governance Statement is a review of our activities to ensure that the council is carrying out its functions effectively. This statement explains how the council has discharged its governance responsibilities during the period from 1 April 2024 to 31 March 2025, the key governance mechanisms in place and planned improvements for 2025/26 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.

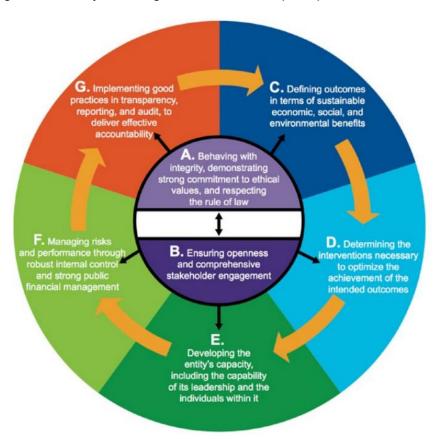
The purpose of the Governance Framework

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. The council aims to achieve good standards of governance by adhering to the seven core principles below:



Overview of Governance Framework

Key elements of the council's governance framework, which have been in place throughout 2024/25 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 strategic direction of the council, alongside the management and performance of the Corporate Leadership Team.
- 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.

20

Annual governance statement

External Audit

External Audit provide 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.

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.

The results of the annual review of the effectiveness of the council's governance arrangements during 2024/25 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 2024/25

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 2024/25:

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 continued to review the council's Constitution and associated documents to simplify and enhance visibility across officers, Members and residents.

- In October 2024, a report was taken to full Council to propose amendments to the constitution in relation to: functions of the Audit & Governance Committee including recruitment and appointment of an Independent Person; functions of Planning and Regulatory Committee; clarification of the Planning Code and rules; amendment to the Fostering Panel membership to reflect practice; amendment to employment rules; amendment to the corporate scheme of delegation; amendment to enable consequential changes to be made to the Constitution; clarification to call-in; and role description for position of chair and vice chairperson.
- An update on the operation of the employee Whistleblowing Policy
 was reported to Audit & Governance Committee in October 2024 to
 provide assurance on the effectiveness of arrangements in place for
 employees, and others, to raise concerns that may be in the public
 interest.
- The Equality Policy 2024-2027 was approved in May 2024. The
 policy supports compliance with the Equality Act 2010 and details
 the council's equality objectives, work across the council to address
 equality issues and highlights areas where additional actions are
 proposed.
- The Corporate Complaints and Compliments Policy and Procedure 2025-2029 has been updated to ensure customers are informed about the complaints process and are aware of the rights and obligations. This ensures effective investigation and appropriate response to formal complaints and compliments received from service users.
- 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 2024/25 to review the position and performance of companies in which the council has a legal interest. The Committee ensures transparent reporting of the council's interests.
- Engagement through Leadership Group, All Staff Briefings and collaboration across Corporate Leadership Team and individual Directorate Teams has taken place throughout 2024/25 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.

- Mandatory training completed in 2024/25 included modules which support decision making and reporting: Information Access & Information Governance, Information Security, Equality, Diversity & Inclusion (EDI).
- Additional training has been delivered through the council's Leadership Group in 2024/25 for officers to share across their teams: Equality Impact Assessments, the role of Scrutiny, Impact of Procurement Reforms and regular updates on the council's financial position and performance.

The governance arrangements, as identified above, have been effective in the period from 1 April 2024 to 31 March 2025. Areas where it is recognised that governance arrangements could be further strengthened include:

- We will continue to promote a culture of accountability and strong ethical values through additional training to Officers to support the documentation of evidence-based decision making and reporting, aligned to the revised Risk Management Strategy and Risk Appetite Statement.
- Improvements to the process for declaring employee interests will be delivered in 2025/26 to enable simplified reporting and updating by employees and support improved oversight by managers.
- Incorporation of equality considerations in service planning templates to improve ownership of equality within each service area.

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

Key aspects of the council's governance arrangements during 2024/25:

The Chief Executive and Corporate Leadership Team value 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.

Activity during 2024/25 comprised:

- 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.
- Active promotion of employee network groups to strengthen the voices of employees and provide a safe environment for colleagues who share identities, life experiences or cultures to raise awareness, challenge discrimination and initiate positive change in the workplace.
- 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 ensure transparent political choices for the electorate.
- The Herefordshire Council Plan 2024-28, approved by Council in May 2024, identifies the council's strategies and plans that will support delivery of priorities. As part of routine activity during 2024/25, these plans and strategies have been subject to in-year review and updates made accordingly. Collaboration and engagement across teams, and review by the Corporate Leadership Team, ensures that relevant strategies and policies are aligned to the Transformation Strategy.
- The Audit & Governance Committee appointed an Independent Member in September 2024 to provide specialist knowledge and insight and complement the skills and experience of existing Members. Training and information have been provided to the newly appointed Member to support delivery in the role.
- Feedback from events and surveys to inform the council's corporate priorities. Consultations and surveys, to engage the views of stakeholders, during 2024/25 included: Library Strategy, Active

travel improvements, 2025/26 Budget proposals, Herefordshire Domestic Abuse Strategy, Wraparound Childcare requirements and proposed expansion of Aylestone School.

- As part of consultation on proposals for the 2025/26 revenue budget and capital programme, the council developed an online budget simulator tool, enabling residents and other stakeholders to consider funding choices and the impact of changes in income and expenditure on the delivery of services. Engagement also asked for feedback on priorities for the 2025/26 budget and council tax increase options. A further event to engage with the business community was held in December 2024.
- Implementation of a People's Voice questionnaire at the conclusion of each Care Act Assessment in adult social care to secure feedback from individual residents on their experience to inform ongoing service improvement.

The governance arrangements, as identified above, have been effective in the period from 1 April 2024 to 31 March 2025. 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 be implemented in 2025/26 with the establishment of a Major Projects Forum. This body will provide oversight with representation from a variety of stakeholders across the council to provide internal check and challenge.
- A further layer of assurance will be provided via a Corporate Services Gateway board to be chaired by the Deputy Monitoring Officer and Deputy S151 Officer to provide an opportunity for crosscutting legal, financial, governance issues and risks to be considered separately for upward reporting to the Major Projects Forum.

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

Key aspects of the council's governance arrangements during 2024/25:

• The Herefordshire Council Plan 2024-28 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.

- Performance against 2024/25 Delivery Plan actions has been reported quarterly to Cabinet. Reporting identifies the lead officer and outlines progress made in the quarter against the performance measures relevant to each action and indicates the risk of delivery.
- Work to finalise Service Plans has progressed during 2024/25; in June 2024, a workshop took place with the council's Leadership Group to review existing service plans and standardise processes to develop the plans. The outcomes from this workshop have been taken forward to inform the production of Service Plans to support monitoring of performance at Service level in 2025/26.

- The council's Carbon Management Plan 2020/21 to 2025/26 and supporting action plan aims to deliver a 75% reduction in carbon emissions by 2025/26; an interim target on a path to carbon neutral by 2030/31.
- 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 Contract Procedures Rules were updated in 2024/25 to incorporate the legislative requirements of the Procurement Act 2023 and Procurement Regulations 2024. The revised Rules ensure that service specifications for procurement of new or existing services identify social value outcomes and how they will contribute to the council's strategic priorities.

The governance arrangements, as identified above, have been effective in the period from 1 April 2024 to 31 March 2025. Areas where it is recognised that governance arrangements could be further strengthened include:

- Development of an updated Carbon Management Plan and associated action plan.
- Continued work with strategic partners, residents and local organisations to develop a revised countywide carbon dioxide reduction strategy aspiring for carbon neutrality by 2030.

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

Key aspects of the council's governance arrangements during 2024/25:

- 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 savings proposals and these are subject to challenge and scrutiny by relevant stakeholders.
- Development of the 2025/26 revenue budget and capital programme included increased engagement and transparency across Group Leaders, and their political groups, to share information throughout each stage of development and as new challenges to the council's financial position arose.
- Monthly Budget Board meetings of Corporate Directors and Service Leads, the Chief Executive and S151 Officer, have taken place throughout 2024/25 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.
- Quarterly reporting of financial performance to Cabinet during 2024/25 has highlighted key financial pressures and risks, prompting the continuation of expenditure controls and management recovery actions with a resulting positive impact on the final outturn position for the financial year.
- Performance against actions from the council's Delivery Plan was reported quarterly to Cabinet during 2024/25.
- 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.
- The council's future target operating model was launched in 2024 and has been communicated across the organisation through staff briefings and the staff conference. The Strategic Transformation Board has been established to finalise work programmes and improvement activity that will support the implementation of the council's new target operating model.

 Enhanced monitoring of children's residential placements has been delivered in 2024/25 through the Children & Young People Directorate's 'Better Outcomes' Panel, chaired by a Senior Officer.

Areas where it is recognised that governance arrangements could be further strengthened include:

- In addition to improvements in performance monitoring arrangements, the council has identified areas for improvements in the integration of social care case management and financial systems to support consistency and accuracy in data used to drive activity and financial forecasts.
- Improved links between All Age Commissioning and operational service areas to ensure joint understanding of commissioned services, to support service developments and enhanced financial management.

A key area for improvement for the council is the continued transformation of children's social care services to address areas identified for improvement following an Ofsted review of the service in July 2022.

In September 2022, the council's Children's Services were rated inadequate and a statutory direction was issued by the Secretary of State and a Commissioner for Children's Services was appointed. The council has responded positively to the findings of these reviews with enhanced governance and oversight arrangements and significant financial investment. Further planned actions to improve are noted below under Significant Governance Issues.

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 2024/25:

The Workforce Strategy 2024-28, was approved for implementation in April 2024. The Strategy commits to nurturing a culture of excellence, empowerment and growth with the **THRIVE** core values as the guiding principles to shape the culture and behaviours within the council:

TRUST: developing and maintaining relationships based on a culture of transparency and open communication

HONESTY: demonstrating truthfulness, integrity, and transparency in all communications, decisions, and relationships

RESPONSIBILITY: taking ownership of individual and collective actions, decisions, and delivering on commitments

INCLUSIVITY: embracing diversity, equity and inclusion by recognising and valuing the unique perspectives, backgrounds and experiences of staff, customers and residents

VALUE: upholding high standards, ethics and integrity to guide actions and decisions by demonstrating commitment to creating and delivering value

EMPATHY: demonstrating a genuine and caring understanding of

 A Children & Young People Workforce Strategy, aligned to the Corporate Workforce Strategy with a specific focus on ambitions for staff in the C&YP Directorate, is in place to support permanent recruitment and development of staff internally.

others' feelings, perspectives, and experiences

- The council provides a range of learning and development opportunities for staff, delivered through the Learning & Organisational Development Team. This includes Mandatory Training modules as well as opportunities through 'My Learning Hub'.
- In 2024/25, investment in the council's learning offer, shaped by feedback from staff, resulted in a programme of learning across a variety of topics. The All Staff learning offer includes 10 topics covering core skills as well as areas identified as a learning gap in the employee survey and through employee feedback. Themes include: Productivity, Impact & Influence, Change Mindset and

Presenting. For Managers and Leaders, an additional suite of training is available to support leadership and management skills. This includes topics such as coaching skills, managing change and performance and delegation and empowerment skills.

- Staff are able to discuss and agree training and development needs through the annual 'My Conversation' process.
- In 2024/25, the Corporate Leadership Team approved a suite of leadership training for leaders at all stages of their careers, which will be implemented in 2025/26: Lead@HC.
- The council has continued to develop and update its financial reporting arrangements during 2024/25, to tailor financial information to the risks of each Directorate, working collaboratively with stakeholders.
- During 2024/25, 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. At the Staff Conference in September 2024, an update by the Director of Finance was shared with all attendees.

Areas where it is recognised that governance arrangements could be further strengthened include:

- The council's leadership development programme (@LeadHC) will be launched in 2025/26 to address gaps in the learning and development offer and strengthen leadership skills and capabilities. The Lead@HC Programme will aim to develop inspirational leaders across four themes: Grow, Aspire, Empower, Innovate.
- A review of the reporting tools available through the council's finance system (Business World) will be undertaken in 2025/26 to increase automation and simplification of financial information to aid budget management and decision making.

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 2024/25:

- 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. 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.
- Activity to review and update the council's risk management arrangements was undertaken in 2024/25 to update the Risk Management Strategy and strengthen the management and monitoring of risks across the council.
- This activity has included feedback from the council's external risk management consultants, Corporate Leadership Team Risk Management workshops, facilitated by the council's Internal Auditor's Chief Technical Advisor for Risk and Head of Internal Audit, and engagement with Cabinet Members and Audit & Governance Committee.
- A revised Risk Management Strategy has been completed, incorporating a new Risk Appetite Statement which defines the level of risk the council is willing to accept to deliver the priorities of the Herefordshire Council Plan 2024-28 and annual Delivery Plan.
- The Strategy sets out the approach and principles of risk management, outlining the council's risk appetite, risk management

- objectives and confirms the roles and responsibilities of elected Members and Officers across the council.
- 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 2024/25: 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 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 it 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.
- Internal financial reporting and monthly Directorate Budget Board meetings have supported early identification and effective management of financial risks during 2024/25; 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.
- A self-assessment against the CIPFA Financial Management Code has been completed in 2024/25 and actions to address areas for improvement has been developed for implementation in 2025/26.

The governance arrangements, as identified above, have been effective in the period from 1 April 2024 to 31 March 2025. 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 2025/26
 to review the council's risk management framework which outlines
 the processes and activities by which risks are identified, evaluated,
 managed, monitored and reported, in line with the revised Risk
 Management Strategy.
- This activity will include engagement through the council's Leadership Group and training for risk owners at all levels within the risk management framework including elected members.

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

Key aspects of the council's governance arrangements during 2024/25:

- 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.
- 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.
- Internal and external recommendations for ongoing monitoring are managed through 'AuditBoard': an integrated tool which is now used by Council Staff, Internal Audit (SWAP) and Members of the Audit & Governance Committee. Training has been provided to users and the Internal Audit in-year quarterly update reports are informed by data recorded in this tool.
- Individual Directorate Delegations of Authority have been reviewed to strengthen and reinforce financial accountability and responsibility.
- The process to assess the equality impact of council decisions, activity and policies has been reviewed during 2024/25 and refreshed Equality Impact Assessment Guidance is available on the council's intranet for all Officers to consider. In addition, an interactive training session was delivered to the council's Leadership Group in October 2024.

The governance arrangements, as identified above, have been effective in the period from 1 April 2024 to 31 March 2025. Areas where it is recognised that governance arrangements could be further strengthened include:

- A review of the council's Internal Audit Plan for 2025/26, following the approval of the updated Risk Management Strategy and Corporate Risk Register, to ensure that planned work provides adequate coverage of the council's key risks and control environment.
- Integration of equality impact assessments at the initial stages of developing new strategic, policies, functions or services to understand the potential impacts on individuals, and groups, in our communities and ensure effective consideration of equality, diversity and cohesion in all key decision making.
- Equality, Diversity and Inclusion (EDI) training is included in the council's Mandatory Training Programme for 2025; opportunities to enhance and share information to strengthen consideration of

equality impact assessments for staff and Members will continue in 2025/26.

Annual governance statement

Significant Governance Issues

Actions taken to address significant governance challenges during 2024/25 are noted below.

- Improvements in Children's Services: During 2024/25, the council has continued to work hard to deliver the improvements required in Children's Services. In September 2024, Phase 2 of the Children's Services Improvement Plan was endorsed by Cabinet, following engagement and scrutiny of the Plan by the Children & Young People Scrutiny Committee. Findings and feedback from the Ofsted monitoring visit and SEND Area Inspection during the year have been published by the council and Member briefings have taken place to improve awareness and understanding of key challenges and review latest performance. The Children's Improvement Board, has reviewed its terms of reference and membership and has been independently chaired by the Department of Education Commissioner with meetings held on a six-weekly basis. The Children's Commissioner has continued to provide expert insight and guidance throughout the year, undertaking formal six-monthly reviews to present recommendations for improvement. In March 2025, Council unanimously endorsed the Corporate Parenting Strategy 2025-2027 which sets out the council's ambitions, actions and outcomes to achieve as Corporate Parent of children and young people in Herefordshire.
- **Financial Management and Resilience**: Monthly Directorate Budget Boards have provided improved oversight of key cost pressures and challenges in the delivery of savings during 2024/25, 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. This activity has enabled recovery plans to be implemented to have a positive impact on the final outturn position.

The review of governance arrangements during 2024/25 has identified the following areas which will be a key focus for the council's leadership in 2025/26:

- Continued improvement in Children's Services: As the council's number one priority, we will continue to make improvements to the services that we provide to children and their families. We will continue to work to deliver improvements to address Ofsted recommendations and will monitor activity and report on measures of success through the Improvement Plan.
- Financial Sustainability and Resilience: The council's financial position continues to be challenging with significant uncertainty in terms of future funding arrangements and allocations across local authorities over the medium term period. Government have confirmed that there will be significant reform of funding arrangements in future years, including a Fair Funding Review and reset of Business Rates during 2025 for implementation from 2026/27. Monitoring of financial position and performance in 2025/26 will include enhanced 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 has set a balanced budget for 2025/26 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 2025/26 to ensure delivery of services within the approved budget. Budget Boards, established in 2024/25 will monitor achievement of savings targets, key financial pressures and risks and delivery of capital and major projects by Directorate.

Annual governance statement

- **Dedicated Schools Grant:** At 31 March 2025, the council's Dedicated Schools Grant (DSG) cumulative deficit is £20.0 million and this is expected to increase further during 2025/26. 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 2026; beyond the period of the statutory override, any balance on the DSG unusable reserve will transfer back to the council's Earmarked Reserves.
- The council is committed to identifying actions to mitigate the DSG deficit, through monitoring of the impact of actions in the DSG Deficit Management Plan, and by reviewing opportunities to increase sufficiency and reduce the use and cost of out-of-county and independent provision, through the council's capital programme in 2025/26 and 2026/27. The risk of a lack of local special educational needs and disabilities (SEND) placement provision to meet current and future levels of demand, is included in the Corporate Risk Register and the impact of mitigating actions and controls will be reported to Cabinet throughout 2025/26.

The key governance challenges facing the council in 2025/26 will be monitored by the Corporate Leadership Team and Audit & Governance Committee.

Annual governance statement

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 2023/24, Grant Thornton gave an unqualified audit opinion on the financial statements.

The external auditors work on the council's arrangements to secure value for money in 2023/24 did not identify any significant weaknesses in respect of the themes of financial sustainability and governance. The auditors reported a significant weakness, first identified in 2021/22, which remains in respect of improvement in children's services under the theme of improving economy, efficiency and effectiveness in the use of resources.

Internal audit services are provided 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, associated risks and the risk management process and the council's corporate governance arrangements.

Further assurance is provided by reviews undertaken by external agencies including OFSTED, the Care Quality Commission, the Office of the Information Commissioner and other Local Authority Inspectorates.

For the year ended 31 March 2025, 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 2024 to 31 March 2025. 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 Walker Chief Executive Date: 25/09/2025

Jonathan Lester Leader of the Council Date: 25/09/2025

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.
Borrowing costs	Interest and other costs that an entity incurs in connection with the borrowing of funds. This includes finance charges in respect of leases and PFI contracts.
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.
Contingent liability	A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the council, or A present obligation that arises from past events but is not recognised because a) it is not probable that an outflow of resources embodying economic benefits or b) services potential will be required to settle the obligation, or c) the amount of the obligation cannot be measured with sufficient reliability.
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.

Glossary of terms

Term	Definition
Depreciation	The systematic allocation of the depreciable amount of the asset over its useful life.
Exchange transactions	Transactions in which one entity receives assets or services, or has liabilities extinguished, and gives approximately equal value (cash, goods, services, or use of assets) to another entity in exchange.
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.
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.

Glossary of terms

Term	Definition
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.
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.
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

25 September 2025

Dear Grant Thornton UK LLP

Herefordshire Council Financial Statements for the year ended 31 March 2025

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council ("the Authority") and its subsidiary undertaking Hoople Limited ("the group"), for the year ended 31 March 2025 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 2024-25 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 2024-25 ("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 properties, the depreciation of property, plant and equipment and the valuation of the pension fund net asset/liability. 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. 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 their 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.
- 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. The prior period adjustments disclosed in Note 5 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- xiv. 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.

xv. 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

xvi. 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
- unrestricted access to persons within the group and Authority from whom you determined it necessary to obtain audit evidence.
- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. 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.
- xx. 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.
- xxi. 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.
- xxii. 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.
- xxiii. 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.
- xxiv. 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

xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the group and 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

xxvi. 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 25 September 2025.

Yours faithfully

Name Rachael SandersPosition Director of FinanceDate 25 September 2025

Name David Hitchiner

Position Chair of Audit and Governance Commitee

Date 25 September 2025

Signed on behalf of the Authority

Appendix I List of subsidiary undertakings

Hoople Limited

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 2025, 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 2024/25.

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 2025 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 2024/25; 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's 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's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 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's 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 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 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 2024/25, 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

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. The Director of Finance 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 2024/25, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance 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 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 2024/25, 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. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to manual large and unusual journal entries and those below the authorisation limit, potential management bias in determining accounting estimates and judgements and transactions outside the course of normal business.
 - We utilised forensic specialists in our audit testing where we considered it necessary.
- Our audit procedures involved:
 - 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 and those below the authorisation limit;

- 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 asset; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- 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 events and transactions reflected in the financial statements, the less likely we would become aware of it.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including those in relation to manual large and unusual journal entries and those below the authorisation limit, potential management bias in determining accounting estimates and judgements and transactions outside the course of normal business. 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's engagement team included consideration of the engagement team's:
 - 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.
- For components at which audit procedures were performed, we requested component auditors report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements.

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 2025.

We have nothing to report in respect of the above matter except on 28 August 2025 we identified two significant weaknesses in respect of:

- How the Authority manages the Dedicated Schools Grant budget and mitigations within the Authority's action plan. The 2024/25 DSG outturn position is an overspend of £13.9m. This increases the Authority's cumulative DSG deficit to £20.0m at 31 March 2025. A deficit budget of £20.2m has been approved for 2025/26. If expenditure is contained within the approved budget, the cumulative DSG deficit will total £40.2m by 31 March 2026. The Authority has identified that it has insufficient revenue reserves to fund the deficit. We recommended that the Authority 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.
- A weakness in the Authority's arrangements for oversight of large capital projects. The Council's Capital Strategy and Capital Programme, supported by Cabinet approval processes and Programme Management Office oversight, set out a governance framework intended to provide assurance over cost control, delivery monitoring, and escalation for major capital projects. However, these arrangements are not consistently applied. Review of the Student Accommodation project identified management override of expected controls, with approval decisions made using outdated viability assessments, insufficient segregation of duties, procurement lacking a documented rationale, legal advice not escalated appropriately, and documentation and audit trails for key decisions were incomplete. Extensive further investigation work was completed by the Council and the audit team to establish whether this was an isolated issue, including the involvement of forensics specialists where necessary. No further areas of concern were identified as a result of this work. We recommended that 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.

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 guidance issued by the Comptroller and Auditor General in November 2024. 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 2025 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 2025. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2025.

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

[**Date**]



Title of report: External Auditor's Annual Report 2024/25

Meeting: Audit and Governance Committee

Meeting date: Thursday 25 September 2025

Report by: Director of Finance, Chief Accountant

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 2024/25 for information and discussion.

Recommendation(s)

That:

a) The committee reviews the external auditor's annual report, notes its findings and recommendations and considered the management responses.

Alternative options

1. There are no alternative recommendations. The auditor's Annual Report forms part of the statutory external audit of the Council.

Key considerations

2. The external auditor's draft Annual Report for 2024/25 is attached at Appendix 1. Under the National Audit Office 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 2024/25 year and summarises all of the reports and work that the external auditors have undertaken. The report closes the 2024/25 audit.

- 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. 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.
- 5. The report focuses on the arrangements in place during the financial year ended 31 March 2025 under three key themes: financial sustainability, governance and improving economy, efficiency and effectiveness in the use of resources.

Financial Sustainability

- 6. 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.
- 7. 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 operational planning and in identifying and managing risks to financial resilience. The auditor's work included a review of financial reporting and risk management activity.
- 8. A key recommendation has been raised in respect of the council's Dedicated Schools Grant (DSG) deficit position. Recognising this is a national pressure, monitoring and management of the DSG position remains a key priority and 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.
- 9. An improvement recommendation has been made in respect of the achievement of savings in 2024/25. The council has made significant progress in the delivery of approved savings for 2025/26 and savings brought forward from previous financial years and this is noted in the Quarter 1 Budget Report presented to Cabinet 25 September 2025. This highlights that 47% of total savings have been delivered at Quarter 1, with a further 44% assessed as on target for delivery, and a small balance which represents 9% assessed to be at risk as at Quarter 1 2025/26.

Governance

- 10. 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, ensures it makes properly informed decisions supported by appropriate evidence and how it monitors and ensures appropriate standards are met.
- 11. In all areas tested in respect of the council's governance arrangements, no significant weaknesses or improvement recommendations have been identified.
- 12. 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

- 13. The auditor's work considers how the council evaluates service delivery 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 realise benefits.
- 14. In this area, the report 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.
- 15. The effective use of financial and performance information has been recognised by the auditors noting the active engagement by Members with performance information in monitoring delivery of council priorities. Arrangements to ensure delivery of the council's partnership responsibilities are noted as effective: feedback is used to shape strategic goals and updates include delivery timelines and financial commitments and risks.
- 16. In respect of the council's arrangements to commission or procure services, the auditor's work confirms that a structured framework is in place and that contract monitoring is effective undertaken with sufficient regularity and informed by performance data. The report also recognises compliance with procurement regulations and consideration of risks associated with large contractual changes.
- 17. A key recommendation has been raised in relation to strengthening challenge and control of capital expenditure to ensure effective governance and oversight of procurement decisions. The council has already implemented improvements in this area with additional oversight across all major projects to consider individual and thematic challenges and risks in project delivery.

Community impact

18. 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

- 19. 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.
- 20. Whilst this is a decision 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.

Equality duty

21. 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.

22. 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

23. 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

24. There are no specific legal implications arising from this report itself.

Risk management

25. Specific risks are included within the external auditor's report.

Consultees

26. None.

Appendices

Appendix 1: Auditor's Annual Report on Herefordshire Council 2024/25

Background papers

None identified.



Herefordshire Council

Final Auditor's Annual Report Year ending 31 March 2025

24 September 2025





Contents

01	Introduction and context	03
02	Executive summary	06
03	Opinion on the financial statements and use of auditor's powers	10
04	Value for Money commentary on arrangements	13
	Financial sustainability	15
	Governance	20
	Improving economy, efficiency and effectiveness	23
05	Summary of Value for Money Recommendations raised in 2024/25	31
06	Follow up of previous Key recommendations	35
Арі	pendices	37
Α	Responsibilities of the Council	38
В	Value for Money Auditor responsibilities	39
С	Follow-up of previous improvement recommendations	40

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 8 Finsbury Circus, London, EC2M 7EA. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

01 Introduction and context

Introduction

This report brings together a summary of all the work we have undertaken for Herefordshire Council during 2024/25 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 2025 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 2024/25
- 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 Section 30 of the Local Audit and Accountability Act 2014, the auditor of a local authority has a duty to consider whether there are any issues arising during their work that indicate possible or actual unlawful expenditure or action leading to a possible or actual loss or deficiency that should be referred to the Secretary of State. They may also issue:

- Statutory recommendations to the full Council 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. The NAO has consulted on and updated the Code to align it to 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. This new deadline requirement is introduced from November 2025.

Local government – context

Local government has remained under significant pressure in 2024/25

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.

Present



Financial Sustainability

Many councils continue to face significant financial challenges, including housing revenue account 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



Funding Reform

The UK government plans to reform the system of funding for local government and introduce multiannual settlements. The state of national public finances means that overall funding pressures are likely to continue for many councils.



Reorganisation and Devolution

Many councils in England will be impacted by reorganisation and / or devolution, creating capacity and other challenges in meeting business as usual service delivery.

Local

Herefordshire is a county covering a geographic area of 840 square miles and is home to nearly 200,000 residents across rural villages and market towns. The continuing impact of increasing demand for adult and children's social care, temporary accommodation and home to school and SEND transport services has placed the Council's resources under significant pressure during 2024/25.

It is within this context that we set out our commentary on the Council's value for money arrangements in 2024/25.

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	2023/24 Assessment of arrangements		2024/25 Risk assessment		2024/25 Assessment of arrangements		
Financial sustainability	A	No significant weaknesses identified; one improvement recommendation raised in relation to the DSG.	Two risks of significant weakness identified in relation to the adequacy savings schemes and the Dedicated Schools Grant (DSG) deficit.	R	One significant weakness in arrangements for managing the Dedicated Schools Grant within budget was identified and a key recommendation raised. One improvement recommendation raised in respect of non-delivery of Council-wide savings schemes and ensuring lessons are learned.		
Governance	A	No significant weaknesses identified; two improvement recommendations raised in relation to risk management and waiver reporting.	No risks of significant weakness identified.	G	No risks of significant weakness identified.		
Improving economy, efficiency and effectiveness	R	Significant weakness identified in relation to the Ofsted rating for children's services.	One risk of significant weakness identified in relation to prior year key recommendations on children's social care services.	R	One significant weakness in arrangements for oversight of an individual capital project was identified and a key recommendation raised. We also downgraded the previous key recommendation in respect of Children's Services to an improvement recommendation.		

- No significant weaknesses or improvement recommendations.
- No significant weaknesses, improvement recommendation(s) made.
- 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 has generally sound arrangements for containing expenditure within budget. However, the Dedicated Schools Grant (DSG) deficit is worsening and now represents a significant threat to the Council's arrangements to ensure financial sustainability. We have updated our prior year Improvement Recommendation to a Key Recommendation.

In 2024/25 Council-wide savings were not delivered as planned. The Council has reviewed the relevant schemes and is seeking to learn lessons and strengthen arrangements. As non-delivery of planned savings schemes could lead to a significant weakness in arrangements we have raised an Improvement Recommendation.



Governance

Governance arrangements are generally sound and continue to develop. Inuear financial reporting provides appropriate assurance that the budget is being managed effectively. The budget setting process is robust, with appropriate review and challenge.

Clear behavioural expectations are set out in codes and policies.

Decision-making is generally supported by appropriate information. However, we have identified a significant weakness in arrangements for one capital project where decision-making did not follow the Council's required processes. We have raised this in the Improving economy, efficiency and effectiveness section. We were alerted to this by the Council following an internal review.



Improving economy, efficiency and effectiveness

Owing to ongoing improvements in arrangements we have been able to reduce the key recommendation in respect of Children's Services to an improvement recommendation.

However, following an internal review, the Section 151 Officer alerted us to weaknesses in the way that procedures were followed in the procurement of a capital project and we have identified this as a significant weakness in arrangements and raised a key recommendation.

Quarterly performance reports to Cabinet provide comprehensive information, including action being taken where targets are not being met.

The Council has appropriate arrangements for working in partnership, but could further strengthen these to align with best practice.

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

2024/25 outcome (to be updated following completion of our audit)

Opinion on the Financial Statements

Our audit work in well progressed with the aim to conclude the audit in late September following the Audit and Governance Committee meeting on 25 September 2025.

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 (to be updated following completion of our audit).

Audit opinion on the financial statements

Our audit work in well progressed with the aim to conclude the audit in late September following the Audit and Governance Committee meeting on 25 September 2025.

The full opinion will be included in the Council's Annual Report for 2024/25, 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 2025 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 2024/25
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with: International Standards on Auditing (UK), the Code of Audit Practice (2024) published by the National Audit Office, and applicable law. We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Findings from the audit of the financial statements

The Council provided draft accounts on 30 May in advance of the national deadline of 30 June 2025.

Draft financial statements were of a good standard and supported by detailed working papers. Details of adjustments and recommendations can be found in our Audit Findings Report.

The audit team were able to visit the Council Offices for onsite visits with the finance team throughout the audit process which has helped to support an efficient audit process.

Our audit work in well progressed with the aim to conclude the audit in late September following the Audit and Governance Committee meeting on 25 September 2025.

Audit Findings Report

We report the detailed findings from our audit in our Audit Findings Report. We will report this to the Council's Audit and Governance Committee on 25 September 2025. 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.



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. Council's 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

In 2024/25 the Council's net revenue budget was £212.8m, with an underspend of £0.5m. This is after use of £4m from the Budget Resilience Reserve (established in November 2024 following a transfer of £11.0m from the Business Rates Risk Reserve) to mitigate in-year cost pressures in respect of adult social care and homelessness. The balance on that reserve is now £7m. For 2025/26 the budget is balanced at £231.5m. This includes a 4.99% increase in council tax. The budget has been increased by £25.7m to fund known pressures. Savings and efficiencies of £6.9m are included. The budget setting report includes a table showing, for each Directorate, the financial impact of the pay award (£2.0m total); National Insurance (£1.5m); Inflation (£10.5m) and demand (£12.9m).

The General Fund balance is £10.1m at 31 March 2025, representing 4.1% of net revenue expenditure for 2025/26. This is consistent with the Council policy of keeping the balance between 3 and 5%.

The Medium Term Financial Strategy (MTFS) presented to February 2025 Cabinet models the budget through to 2028/29, identifying a £5m funding gap in that year, but with a surplus up to that point. Key funding streams such as Council tax, business rates, revenue support grant and social care support grant are shown. Expenditure is shown incrementally, with the prior year budget being brought forward and adjusted for items such as pay awards, growth demand and pressures and any savings.

Consistent with many councils, the Council's Dedicated Schools Grant (DSG) deficit is worsening and now represents a significant weakness in the Council's arrangements to ensure financial sustainability. We have updated our prior year Improvement Recommendation to a Key Recommendation. Please see page 18.

- No significant weaknesses or improvement recommendations.
- No significant weaknesses, improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendation(s) made.

R

Financial sustainability – commentary on arrangements

We considered how the Council: Commentary on arrangements

Rating

plans to bridge its funding gaps and identify achievable savings Officers have noted the challenges around overlap or conflict of different savings schemes and difficulties around Council-wide schemes, particularly staffing reductions in areas of increasing demand for services. The Council intends to enhance monitoring and better understand the demand and cost pressures which could impact schemes. However, this represents a weakness in arrangements to deliver savings as planned and we have raised an improvement recommendation to support the Council is this area. Please see page 19. For 2025/26 approved savings and efficiencies total £6.9m, of which £3.9m savings are in the Children and Young People

For 2024/25 the Council approved a savings programme totalling £19.5m, comprising Directorate savings of £11.6m and £7.9m of Council-wide savings. As at 31 March 2025, £10.9m (56%) of the approved savings were delivered, with the balance mitigated in year. The biggest shortfall was "Council-wide savings" where only £2.2m of £7.9m was delivered.

Directorate, with no other Directorate savings planned. The gap is bridged by £3.0m of mitigations, including £1.4m from the Contingency Reserve, which is to be repaid in future years. The remaining mitigations include use of capital receipts where appropriate (£0.6m) and increased fees and charges (£0.5m). At June 2025 £1.6m of the £3.9m has already been delivered and none is "At risk". Narrative explanations support delivery and provide assurance. Therefore, for 2025/26, the Council has a much lower savings target than in 2024/25 and is on track to deliver.

The MTFS forecasts a £5.00m in-year budget deficit in 2028/29. Actions the Council is taking to address this include transforming service delivery, better recovering costs of providing services, reviewing expenditure and the workforce. The Council is also updating its Commercial Strategy and reviewing council tax discounts and exemptions. The MTFS as a whole shows a total gap of £4.2m to 2028/29, noting the uncertainty around government funding. The £5m deficit in 2028/29 represents 1.7% of the net budget, and is therefore comparatively small, with time to implement the planned mitigations.

- No significant weaknesses or improvement recommendations.
- No significant weaknesses, improvement recommendations made.
- 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
plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	The Council Plan 2024-28 has four corporate priorities - People, Place, Growth and Transformation, with six or seven objectives for each priority. Whilst the budget setting report for 2025/26 does not include any references to the Council's objectives or priorities Officers consider that the budget report, and supporting financial and performance information, provides significant and valuable information for residents.	G
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 "Workforce Strategy 2024-2028" sets out how the Workforce Plan aligns to and supports the Council Plan. This included the Council Transformation Programme (Thrive). The Strategy has six aims, and for each of these there are a series of actions or outcomes to support them. The Capital Programme is aligned to the Council's four priorities, and summarises the benefits of the programme - including reducing flooding, improving roads, and better facilities for children. Capital funding requests are reviewed to ensure the financial impact has been considered in the MTFP. The detailed capital strategy sets out how projects are prioritised - it is clear that projects only proceed where they support Council objectives. The capital strategy includes a number of climate change related schemes. The Council has incorporated reducing carbon emissions in new contracts for waste and the public realm.	G
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 explained in quarterly finance reports and, in 2024/25, included increases in demand across social care budgets, temporary accommodation and Special Educational Needs transport. Management actions and their impact are explained. The Corporate Risk Register includes three finance related risks - demand based services; major project delivery and delivering a sustainable financial strategy. The register includes the risk appetite, controls / 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. A table then sets out the key financial risks, with likelihood and impact and mitigation.	G

No significant weaknesses or improvement recommendations.

No significant weaknesses, improvement recommendations made.

Significant weaknesses in arrangements identified and key recommendation(s) made.

Financial sustainability (continued)

Significant weakness identified in relation to financial sustainability

Key Finding: In our prior year report, we raised an Improvement Recommendation that the Council needed to work with partners to better control its Dedicated Schools Grant (DSG) expenditure. During 2024/25, the Council has continued work to address the DSG deficit. Engagement with schools and partners has focused on monitoring expenditure and managing cost pressures. Updates on the DSG position have been reported through the Council's financial performance reports and risk monitoring arrangements. The revised DSG management plan has been considered by the Schools Forum and forms part of the Council's discussions with the Department for Education.

The government has confirmed it is extending the statutory override on DSG deficits for a two further years (until 31 March 2028). This enables councils to treat the deficit as a negative reserve, but it remains a financial drain as expenditure has to be funded in-year. The Council has identified that it has insufficient revenue reserves to fund the deficit. Our Improvement Recommendation has been updated and increased to a Key Recommendation to reflect the worsening financial position and continued material risk. The focus is now on assessing the financial impact and ensuring delivery of the revised DSG management plan and monitoring financial risk until the deficit is brought to a sustainable level.

Evidence: The 2024/25 DSG outturn position is an overspend of £13.9m. This increases the Council's cumulative DSG deficit to £20.0m at 31 March 2025. A deficit budget of £20.2m has been approved for 2025/26. If expenditure is contained within the approved budget, the cumulative DSG deficit will total £40.2m by 31 March 2026.

Impact: The cumulative DSG deficit increased from £1.0m at 31 March 2023 to £6.1m at the end of 2023/24 and then to £20m at the end of 2024/25, with in year overspends on the High Needs block being the primary contributor. The financial risk remains material and unresolved. Measures are ongoing but not yet delivering improvement.

Key recommendation 1

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.

Financial sustainability (continued)

Area for Improvement identified: identifying and delivering recurrent savings

Key Finding: Officers have reviewed the under delivery of some 2024/25 savings programmes and have recognised the challenges around delivering Council-wide transformation schemes, especially where these may conflict with other service delivery plans.

Evidence: The Council has plans in place to enhance monitoring of these schemes and to better understand demand and cost pressures.

Impact: Whilst the Council has taken appropriate action and the 2025/26 savings programme is significantly lower than that for 2024/25, if ongoing, non delivery of recurrent savings represents a potential significant weakness and therefore warrants an improvement recommendation.

Improvement Recommendation 1

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 underdelivery of such schemes in 2024/25.



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	Risk management is supported by an approved strategy, an updated corporate risk register, and engagement from senior officers and Members. The revised Risk Management Strategy has been approved by Cabinet, with quarterly reporting to Cabinet in place during 2025/26. Internal Audit work is risk-based, aligned to strategic objectives, and subject to regular oversight by the Audit and Governance Committee. The Head of Internal Audit issued a "Reasonable" opinion for 2024/25, and no significant control weaknesses were identified. Arrangements for fraud prevention include a defined strategy, policy, and privacy notice. The Annual Counter Fraud Report was presented to the Audit and Governance Committee in January 2025, consistent with established practice, which provides Members with assurance on the Council's approach to fraud risk.	G
approaches and carries out its annual budget setting process	The budget setting process starts in Quarter One of the current year and continues through until final budget setting in February the following year. The timetable shows the review and consultation process. The budget is a standing item at weekly Corporate Leadership Team meetings and Members receive regular updates and briefings, for example on the impact of the funding settlement. The budget setting report explains the challenges and developments for each Directorate, planned savings, risks and mitigation, consultation and the timeline. The timelines includes Cabinet reviewing the draft budget, Scrutiny Management Board consideration, further Cabinet and then Council.	G

- No significant weaknesses or improvement recommendations.
- No significant weaknesses, improvement recommendations made.
- 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 Quarterly finance reports provide appropriate assurance that the budget is being managed effectively. Summary systems are in place to ensure tables are supported by clear explanatory narrative with more detailed provided in appendices. The Dedicated budgetary control; to communicate Schools Grant and capital programme are reported. Reports are presented in a timely manner. relevant, accurate and timely management information; supports G its statutory financial reporting; and Our work on the Council's financial statements has not identified any concerns regarding financial reporting ensures corrective action is taken arrangements. where needed, including in relation to significant partnerships

- No significant weaknesses or improvement recommendations.
- No significant weaknesses, improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendation(s) made.

Governance – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating	
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. Overview and 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 reviews both internal and external audit reports, follows up on overdue actions, and challenges officers when required. Cabinet discussions demonstrate a constructive leadership tone, with evidence of transparency and responsiveness.	G	
monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour	The Council sets out behavioural expectations through published codes and policies and has processes in place for oversight and response. The Councillor Code of Conduct outlines required behaviours, and there is a formal process for handling complaints, overseen by the Monitoring Officer. The Audit and Governance Committee receives updates on complaints, providing oversight. The Council also has policies in place for managing public interactions and for supporting a respectful working environment. In relation to procurement, the Council publishes its principles and maintains a contract register that allows for visibility of awarded contracts. As recommended in the prior year, the Council has begun reporting tender waivers to the Audit and Governance Committee, which is good practice.	G	

- No significant weaknesses or improvement recommendations.
- No significant weaknesses, improvement recommendations made.
- 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 Quarterly Integrated Performance Reports are submitted to Cabinet and include updates on delivery plan objectives, performance indicators, RAG ratings, and risks, with lead Officers clearly identified. These reports are underpinned by a performance management framework which sets expectations for data quality and confirms that all Cabinet uses financial and performance reports are reviewed by the Performance Team before publication. Cabinet minutes demonstrate that Members information to assess performance to G actively engage with performance information, asking questions and agreeing follow-up actions, particularly in identify areas for improvement areas where delivery is off track. The Council also considers external inspection findings, such as Ofsted feedback, as part of its performance oversight. Some use of external comparison is evident, for example referencing national averages.

- No significant weaknesses or improvement recommendations.
- No significant weaknesses, improvement recommendations made.
- 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
evaluates the services it provides to assess performance and identify areas for improvement	Cabinet receives quarterly integrated performance reports that include updates on progress, risks, and actions across strategic themes. These reports identify areas where targets have not been met and outline what is being done in response. Cabinet minutes confirm that Members engage with the reports and discuss issues where performance is off-track. In addition to internal monitoring, Cabinet has reviewed external inspection findings. Ofsted carried out monitoring visits in December 2024 and February 2025, each leading to updates to the Children's Services Improvement Plan. The December visit focused on children at risk of extra familial harm, with Ofsted noting improvements in risk identification, audit activity, and partnership working. The February visit examined social work assessments, where Ofsted identified better timeliness, threshold application, and pre birth assessments. Challenges remain in workforce stability, placement sufficiency, and supervision consistency. Following each visit, the Council updated its Improvement Plan, which sets out actions, timescales, and leads. Cabinet minutes from December 2024 and March 2025 confirm that Members discussed the findings, reviewed progress, and agreed next steps.	
	The prior year Key Recommendation in respect of Children's Services has been downgraded to an Improvement Recommendation, with updated focus on workforce stability, placement sufficiency, and supervision consistency. Progress has been confirmed through Ofsted monitoring, but risks remain.	

- No significant weaknesses or improvement recommendations.
- No significant weaknesses, improvement recommendations made.
- 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

G

ensures it delivers its role within with stakeholders it has identified, in order to assess whether it is meeting its objectives

The Partnership Governance Framework describes how partnerships are formed, governed and reviewed. It requires each strategic partnership to complete an annual health check to assess progress and alignment with priorities. The Council also publishes a list of key partnerships and associated governance arrangements that support transparency. When developing the Council Plan 2024-2028, the Council engaged with a wide range of significant partnerships and engages stakeholders, including residents, voluntary groups, education providers and parish councils. It is stated in the plan that nearly 1,000 responses were received and used to shape the strategic goals. Cabinet receives updates on major partnership programmes that involve external funding or joint delivery. These updates include delivery timelines, financial commitments and risks, and support oversight by showing how programmes align with strategic goals. However, these updates tend to focus on high-profile or grant-funded partnerships, with less evidence of regular reporting on other key partnerships. While this does not represent a weakness in arrangements we have highlighted this as an opportunity for the Council to further enhance arrangements.

- No significant weaknesses or improvement recommendations.
- No significant weaknesses, improvement recommendations made.
- 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 Ratina We confirmed that a structured framework is in place, supported by the Contract Register, the Procurement Strategu, and performance management arrangements for key contracts such as the £64m waste and recycling contract with FCC Waste Services. Contract monitoring is being undertaken through weekly, monthly, and quarterly meetings, with performance data reviewed. For FCC, Internal Audit has also provided Reasonable Assurance over the mobilisation of the contract. No new commercial ventures have been entered into during 2024/25, and Cabinet reports confirm that legal advice was obtained to support the decision to terminate the Public Realm contract with Balfour Beatty Living Places, ensuring compliance with procurement regulations. This indicates that risks associated with large contractual changes have been considered. The Council identified weaknesses in the processes followed and controls in place in respect of an individual capital commissions or procures services, project and an internal review was carried out by the current Director of Finance (S151 Officer). The key issues assessing whether it is realising the identified include insufficient segregation of duties, incomplete minutes to record key project actions and expected benefits judgements. Whilst the review identified areas where procedures and controls should be strengthened, it also confirmed that existing controls were effective in ensuring that the project was not taken beyond the approved stage of works or project budget. The Council has undertaken a comprehensive assessment to provide assurance that there are no further risks to other council projects or activities, arising as a result of the review findings. At a programme level, recurring slippage and re-profiling of £63.3m in 2024/25 reduces transparency over delivery against original plans. We have raised a Key Recommendation in relation to ensuring capital controls are applied consistently and challenge is strengthened. Please see pages 27 and 28.

- No significant weaknesses or improvement recommendations.
 - No significant weaknesses, improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendation(s) made.

Improving economy, efficiency and effectiveness

Significant weakness identified in relation to Improving economy, efficiency and effectiveness

Key finding: The Council's Section 151 Officer alerted us to weaknesses in the application of the Council's capital governance arrangements in respect of one project.

Evidence:

Governance and decision making controls not consistently applied

The Council's Capital Strategy and Capital Programme, supported by Cabinet approval processes and Programme Management Office oversight, set out a governance framework intended to provide assurance over cost control, delivery monitoring, and escalation for major capital projects. However, these arrangements are not consistently applied. Review of the Student Accommodation project identified management override of expected controls, with approval decisions made using outdated viability assessments, insufficient segregation of duties, procurement lacking a documented rationale, legal advice not escalated appropriately, and documentation and audit trails for key decisions were incomplete.

Extensive further investigation work was completed by the Council and the audit team to establish whether this was an isolated issue, including the involvement of forensics specialists where necessaru. No further areas of concern were identified as a result of this work.

Programme oversight and assurance gaps

Overall, while governance arrangements exist, deviation from approved processes and controls can increase risks to timely, cost effective, and transparent delivery of capital schemes. The Council recognises this risk and in October 2024 the Section 151 Officer undertook a comprehensive review of the decision-making process in respect of the Student Accommodation project, identifying nine issues with recommendations for each. The Council also requested Internal Audit to review the project, with an advisory report received in February 2025. The results of this work confirm that no spend was incurred above approved budget. We understand that the Council has strengthened arrangements to enhance and strengthen governance, internal challenge and oversight of the Council's major and capital projects with the establishment of a Major Projects Forum. This Forum will provide oversight with representation from a variety of stakeholders across the Council to provide internal check and challenge. A further layer of assurance will be provided via a Corporate Services Gateway Board to be chaired by the Deputy Monitoring Officer and Deputy Section 151 Officer to provide an opportunity for cross-cutting legal, financial, governance issues and risks to be considered separately for upward reporting to the Major Projects Forum.

Impact: Deviation from approved processes and controls represents a significant risk to arrangements to deliver economy, efficiency and effectiveness in the use of resources. The Council has established that this was an isolated incident and taken timely, proportionate and appropriate action. If the strengthened controls are effective, it is unlikely that a repeat will occur.

Improving economy, efficiency and effectiveness

Key recommendation 2

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.



Improving economy, efficiency and effectiveness

Area for Improvement: Children's Services

Key Finding: Since our 2021/22 Auditor's Annual Report we have raised a significant weakness in regard to the Council's arrangements for delivering Children's Social Care Services in respect of the Ofsted "Inadequate" rating issued in September 2022. In 2023/24 our recommendation focused was on delivering the Improvement Plan, stabilising the workforce to reduce agency reliance, improving placement sufficiency, and strengthening supervision.

Evidence: In 2024/25, Ofsted monitoring visits confirmed improvements in risk identification, partnership working, assessment timeliness, and leadership oversight. The Improvement Plan has been updated after each visit, and Cabinet continues to monitor progress. However, risks remain. Workforce stability is still a challenge, placement sufficiency issues persist, and supervision consistency needs further improvement to ensure service quality is sustained.

Impact: Given that monitoring arrangements are in place, improvement activity is being delivered, and progress is being confirmed through Ofsted visits, the Key Recommendation has been downgraded to an Improvement Recommendation. This reflects that while risks remain, they are being managed through established oversight and governance processes.

Improvement Recommendation 2

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.



Grant Thornton insights — learning from others

The Council has the arrangements we would expect to see in respect of partnership working, but could challenge itself to go further, based on the best arrangements we see across the sector



What the Council is already doing

• The Council's Partnership Framework sets out clear governance for identifying, managing, and reviewing partnerships. It defines significant partnerships, sets risk assessment requirements, and explains oversight arrangements. This reflects recognised good practice. Cabinet receives regular updates on major partnerships, especially those with external funding or joint delivery. These reports cover objectives, timelines, budgets, and risks, helping Members assess alignment with strategic objectives. Examples include Safer Streets 5 and the Single Homelessness Accommodation Programme. Cabinet minutes show Members engage with these updates. However, there is less evidence of regular Cabinet reporting on other significant partnerships without major grant funding.



What others do well

• The most effective partnership governance arrangements we see include reporting on all significant partnerships.



The Council could consider

• The Council could build on its Partnership Framework by introducing a structured schedule for proportionate Cabinet reporting on all significant partnerships, not only those with major external funding. This could be a rolling programme of short assurance summaries covering performance, risk, and strategic alignment, extending good practice to lower-profile partnerships.

05 Summary of Value for Money Recommendations raised in 2024/25

Key recommendations raised in 2024/25

	Recommendation	Relates to	Management Actions
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.		Actions: The Council will continue to work with schools, education providers and the DfE through the SEND and AP Change Programme to support the management of cost pressures in the High Needs Block. The DSG Deficit Management Plan was recognised by auditors and is a valuable tool to monitor the impact of planned changes to reduce and contain the forecast overspend. We will continue to update the Plan as we identify impact on both the financial position and service outcomes. These results will be reported to Cabinet as part of routine quarterly reporting arrangements. Responsible Officer: Corporate Director Children & Young People and Director of Finance (S151 Officer) Due Date: 31 March 2026

© 2025 Grant Thornton UK LLP Auditor's Annual Report Year ending 31st March 2025 | 32

Key recommendations raised in 2024/25 (continued)

	Recommendation	Relates to	Management Actions
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.	Improvement economy, efficiency and effectiveness (pages 27 – 28)	Actions: The Council identified opportunities to strengthen arrangements following the internal review and these actions have already been implemented. The effectiveness of improvements will continue to be monitored through the Major Projects Forum and follow-up work by Internal Audit in 2025/26. Responsible Officer: Director of Finance (S151 Officer) Due Date: 31 March 2026

Improvement recommendations raised in 2024/25

	Recommendation	Relates to	Management Actions
IR1	In order to ensure that any future Councilwide 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.	Financial Sustainability (page 19)	Actions: The Council has made significant progress in the current financial year (2025/26) in the delivery of approved savings and brought forward savings targets. Directorate Saving Boards have been established to monitor and challenge progress in-year and we will 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. Responsible Officer: Corporate Leadership Team Due Date: 31 March 2026
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.	Improvement economy, efficiency and effectiveness (page 29)	Actions: Significant progress has been made both in the stability of leadership and in the quality of operational delivery in line with the Improvement Plan. The Council is now focused on delivery of the agreed actions in Phase 3 of the Improvement Plan and progress will be reported to and monitored by the Improvement Board. Responsible Officer: Corporate Director Children & Young People Due Date: 31 March 2026

O6 Follow up of previous Key recommendations

Follow up of 2023/24 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
KR1	The Council should continue to work with the Department for Education to improve its Children's Social Care Services. This should focus on: Ensuring that the refreshed Improvement Plan is delivered, with regular reporting to Members. Efficiencies made, for example, through reducing the number of agency staff and increasing permanent staff continue, in order to ensure that costs are contained within the agreed budget. Working with other areas of the Council to ensure a holistic and joined up approach to improving services whilst remaining within the agreed financial budget.	2023/24	In 2024/25, Ofsted monitoring visits in October 2024 and February 2025 confirmed progress in risk identification, audit activity, partnership working, assessment timeliness, and threshold application. Cabinet reviewed the findings in December 2024 and March 2025, with updates incorporated into the Phase 2 Improvement Plan, which sets actions, leads, and timescales. The Plan is monitored by the Improvement Board, chaired by the DfE Commissioner, with oversight from Cabinet and Scrutiny. While governance and practice have strengthened, challenges remain in supervision quality, workforce stability, and placement sufficiency. Given that monitoring arrangements are in place, improvement activity is being delivered, and progress is being confirmed through Ofsted visits, the Key Recommendation has been downgraded to an Improvement Recommendation. This reflects that while risks remain, they are being managed through established oversight and governance processes.		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.

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 Chief Finance Officer 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 Chief Finance Officer is required to comply with CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer 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 uear

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 COC

Findings from our opinion audit

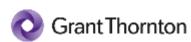
Annual Governance Statement including the Head of Internal Audit annual opinion

Appendix C: Follow up of 2023/24 improvement recommendations

	Prior Recommendation	Raised	Progress	Current position	Further action
IR1	In order to reduce the forecast Dedicated Schools Grant deficit, the Council needs to work with schools and other stakeholders and partners to ensure that expenditure is reduced.	2023/24	During 2024/25, the Council has continued work to address the forecast Dedicated Schools Grant (DSG) deficit. Engagement with schools and partners has focused on monitoring expenditure and managing cost pressures. Updates on the DSG position have been reported through the Council's financial performance reports and risk monitoring arrangements. The revised DSG management plan has been considered by the Schools Forum and forms part of the Council's discussions with the Department for Education. There remains a DSG deficit at the end of 2024/25. Available financial information indicates that the position has worsened compared to the prior year. The cumulative DSG deficit increased from £1.0m at 31 March 2023 to £6.1m at the end of 2023/24 and then to £20m at the end of 2024/25, with in-year overspends on the High Needs block being the primary contributor. The financial risk remains material and unresolved. Measures are ongoing but not yet delivering improvement. Government has announced that this statutory override will contribute until 31 March 2028, giving councils more time to return the DSG to financial balance.	In progress — Updated to a Key Recommendation	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.

Appendix C: Follow up of 2023/24 improvement recommendations

	Prior Recommendation	Raised	Progress	Current position	Further action
IR2	The Council should improve its risk reporting arrangements by: - Enhancing the Corporate Risk Register to include the corporate objective it relates to, when the risk was last reviewed or updated and the direction of travel. - Reporting to Cabinet on a quarterly basis, after review by the Audit and Governance Committee.	2023/24	Progress has been made in strengthening risk management arrangements. A revised Risk Management Strategy has been approved by Cabinet, setting out clearer roles, responsibilities, and alignment with strategic objectives. The Corporate Leadership Team has engaged in workshops to confirm risk appetite and review key risks. Quarterly reporting to Cabinet has commenced in 2025/26. These actions demonstrate that the recommendation has now been implemented.	Implemented	N/A
IR3	In order to enhance arrangements where it is necessary to waive normal tendering arrangements, and to implement best practice, the Council should report tender waivers to Audit and Governance Committee on a quarterly basis. The report should include sufficient details for the Committee to form a view on the reasonableness of the waiver.	2023/24	The Council has implemented reporting of tender waivers to the Audit and Governance Committee. The June 2025 Committee papers include a report titled "Contract Procedure Rules – Waivers and Exemptions 2024/25," which sets out a summary of waivers granted during the year. The report includes waiver values, types, reasons for exemption, and commentary on compliance and improvement actions. This completes the prior year recommendation.	Implemented	N/A



© 2025 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.