

Agenda

Audit and Governance Committee

Date: **Friday 23 June 2023**

Time: **10.00 am**

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

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

For any further information please contact:

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If you would like help to understand this document, or would like it in another format, please call Ben Baugh, Democratic Services Officer on 01432 261882 or e-mail ben.baugh2@herefordshire.gov.uk in advance of the meeting.

Agenda for the meeting of the Audit and Governance Committee

Membership

Chairperson **Councillor David Hitchiner**
Vice-chairperson **Councillor Aubrey Oliver**

Councillor Chris Bartrum
Councillor Frank Cornthwaite
Councillor Peter Hamblin
Councillor Robert Highfield
Councillor Mark Woodall

Agenda

		Pages
1.	<p>APOLOGIES FOR ABSENCE</p> <p>To receive apologies for absence.</p>	
2.	<p>NAMED SUBSTITUTES (IF ANY)</p> <p>To receive details of any councillor nominated to attend the meeting in place of a member of the committee.</p>	
3.	<p>DECLARATIONS OF INTEREST</p> <p>To receive declarations of interest in respect of items on the agenda.</p>	
4.	<p>MINUTES</p> <p>To approve and sign the minutes of the meeting held on 13 March 2023.</p> <p>HOW TO SUBMIT QUESTIONS</p> <p>Deadline for receipt of questions is 9.30 am on Tuesday 20 June 2023.</p> <p>Questions must be submitted to councillorservices@herefordshire.gov.uk. Questions sent to any other address may not be accepted.</p> <p>Accepted questions and the response to them will be published as a supplement to the agenda papers prior to the meeting. Further information and guidance is available at www.herefordshire.gov.uk/getinvolved</p>	11 - 18
5.	<p>QUESTIONS FROM MEMBERS OF THE PUBLIC</p> <p>To receive any questions from members of the public.</p>	
6.	<p>QUESTIONS FROM COUNCILLORS</p> <p>To receive any questions from councillors.</p>	
7.	<p>PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY Q4 2022/23</p> <p>To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed. To enable the committee to monitor performance of the internal audit team against the approved plan.</p>	19 - 38
8.	<p>INTERNAL AUDIT PLAN AND CHARTER 2023/24</p> <p>To present the proposed internal audit plan for 2023/24 and internal audit charter to the Audit and Governance Committee for discussion and approval.</p>	39 - 58
9.	<p>EXTERNAL AUDITOR'S DRAFT ANNUAL PLAN 2022/23</p> <p>To review and agree the external auditor's draft plan for 2022/23.</p>	59 - 124
10.	<p>DRAFT ANNUAL GOVERNANCE STATEMENT 2022/23</p> <p>To seek the view of the committee as to whether the draft Annual Governance Statement (AGS) for 2022/23 properly reflects the internal control environment the council is operating in and the appropriateness of actions identified to improve governance arrangements.</p>	125 - 140

11. 2022/23 DRAFT STATEMENT OF ACCOUNTS	141 - 264
To note the draft, unaudited Statement of Accounts for 2022/23.	
12. EXTERNAL AUDITOR'S ANNUAL REPORT 2021/22	265 - 306
To present to the Audit and Governance Committee the External Auditor's Annual Report 2021/22 for information and discussion.	
13. WHISTLEBLOWING POLICY	307 - 326
This report seeks to provide members with a revised Whistleblowing Policy for approval.	
14. WORK PROGRAMME	327 - 330
To consider the work programme for the committee.	
15. DATES OF FUTURE MEETINGS	
To agree dates of future meetings. The following dates are suggested:	
Monday 31 July 2023 10.00 am	
Tuesday 26 September 2023 2.00 pm	
Tuesday 24 October 2023 2.00 pm	
Tuesday 28 November 2023 2.00 pm	
Tuesday 30 January 2024 2.00 pm	
Tuesday 26 March 2024 2.00 pm	
Tuesday 21 May 2024 2.00 pm	

The public's rights to information and attendance at meetings

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We will review and update this guidance in line with Government advice and restrictions. Thank you for your help in keeping Herefordshire Council meetings safe.

You have a right to:

- Attend all council, cabinet, committee and sub-committee meetings unless the business to be transacted would disclose 'confidential' or 'exempt' information.
- Inspect agenda and public reports at least five clear days before the date of the meeting. Agenda and reports (relating to items to be considered in public) are available at www.herefordshire.gov.uk/meetings
- Inspect minutes of the council and all committees and sub-committees and written statements of decisions taken by the cabinet or individual cabinet members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting (a list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public register stating the names, addresses and wards of all councillors with details of the membership of cabinet and of all committees and sub-committees. Information about councillors is available at www.herefordshire.gov.uk/councillors
- Have access to a list specifying those powers on which the council have delegated decision making to their officers identifying the officers concerned by title. The council's constitution is available at www.herefordshire.gov.uk/constitution
- Access to this summary of your rights as members of the public to attend meetings of the council, cabinet, committees and sub-committees and to inspect documents.

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Public transport links

The Herefordshire Council office at Plough Lane is located off Whitecross Road in Hereford, approximately 1 kilometre from the City Bus Station.

The location of the office and details of city bus services can be viewed at:
www.herefordshire.gov.uk/downloads/file/1597/hereford-city-bus-map-local-services-

**The Seven Principles of Public Life
(Nolan Principles)**

1. Selflessness

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

2. Integrity

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

3. Objectivity

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

4. Accountability

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

5. Openness

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

6. Honesty

Holders of public office should be truthful.

7. Leadership

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

Guide to the Audit and Governance Committee

The Audit and Governance Committee comprises seven members of the council and may also include an independent person who is not a councillor but is appointed by council and has the same voting rights as other members of the committee.

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

The Audit and Governance Committee is responsible for proving assurance on the council's audit, governance (including risk management and information governance) and financial processes in accordance with the functions scheme.

The committee shall:

- (a) review and examine, and where required in depth examine, matters relating to internal audit, external audit, risk management, governance, assurance statement, anti-fraud and anti-corruption arrangements as well as any other function to meet the Council's audit committee requirements
- (b) enhance and promote the profile, status and authority of the internal audit function and to demonstrate its independence
- (c) contribute towards making the authority, its committees and departments more responsive to the audit function
- (d) review compliance with the relevant standards, code of conduct, codes of practice and corporate governance policies
- (e) act within the Council's Constitution.

Minutes of the meeting of the Audit and Governance Committee held in Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE on Monday 13 March 2023 at 2.00 pm

Committee members present in person and voting: Councillors: Jenny Bartlett (Vice-Chairperson), Christy Bolderson, Dave Boulter, Clare Davies and Nigel Shaw (Chairperson)

Others in attendance: B Baugh (Democratic Services Officer), A Lovegrove (Director of Resources and Assurance), S O'Connor (Head of Legal Services and Deputy Monitoring Officer), A Rees-Glinos (Democratic Services Support Officer), J Sumner (Interim Director of Strategy) and D Upton (Senior Lawyer, Corporate Services)

71. APOLOGIES FOR ABSENCE

Councillors Peter Jinman and David Summers were unable to attend the meeting in person but both committee members participated via remote attendance.

72. NAMED SUBSTITUTES (IF ANY)

There were no substitutes.

73. DECLARATIONS OF INTEREST

No declarations of interest were made.

74. MINUTES

The committee received and agreed the minutes of the previous meeting.

The action log for the committee was noted. Following the circulation of a briefing pack to committee members in relation to actions 94, 102, 110, 160 and 179, an updated action log was provided in the meeting room.

With reference made to the response to supplementary question B in Appendix 1 to the minutes, 'Questions and responses, plus supplementary questions and responses', the Head of Legal Services and Deputy Monitoring Officer explained that criminal activities would be reported to the police but not all unlawful activities were routinely reported. Further information was requested as an action.

RESOLVED:

That the minutes of the meeting held on 30 January 2023 be confirmed as a correct record and be signed by the chairman.

Action(s)

188 Confirmation be provided about any memorandum of understanding in place with West Mercia Police and who would determine which criminal or unlawful matters would be referred to the police.

Action update:

There is already a written protocol between the Police and the Council where matters under the Code of Conduct that could amount to criminal offences are notified between the Monitoring Officer and the Herefordshire Superintendent. In addition, there is the Herefordshire Information Sharing Protocol where the main public bodies within the county have agreed protocol for sharing and processing of data where necessary for statutory functions. This includes the Police and the Council.

In practice, any matter arising from whistleblowing that amounts to a criminal offence would be reported to the Monitoring Officer who would advise the relevant Council officer. Where the Monitoring Officer considers that sufficient information exists then she would refer the matter to the Police contact. Ordinarily, if required, the Monitoring Officer will consult with the relevant officers (for example, s151 officer if the matters relates to finances) before making a referral.

75. QUESTIONS FROM MEMBERS OF THE PUBLIC

It was reported that a question had been received from a member of the public but this was not directly related to a function of the Audit and Governance Committee. As the question related to a suggestion for a potential topic for a scrutiny committee and the treatment of such suggestions, a response had been provided about the scrutiny work programming activity that would take place following the Annual Meeting of Council.

76. QUESTIONS FROM COUNCILLORS

No questions had been received from councillors.

77. RECRUITMENT OF INDEPENDENT PERSONS AND STANDARDS UPDATE

The Senior Lawyer introduced the report, with attention drawn to the following:

- i. Although there had been expressions of interest, a recruitment exercise for additional Independent Persons had not resulted in any applicants coming forward.
- ii. The two existing Independent Persons, Jake Bharier and Claire Jenkins, had indicated that they would be willing to undertake a further four year term.
- iii. Consequently, there was not a complement of at least four Independent Persons currently.

In response to questions from committee members, the Senior Lawyer advised:

1. Noting the intention to hold an additional meeting before the end of the municipal year, the recruitment exercise could be undertaken again, with a further report made to the next meeting.
2. Feedback could be sought from those people that had indicated expressions of interest, albeit some may have identified connections which could disqualify them.
3. A link could be provided to the dedicated Code of Conduct complaints area on the council's website.
4. Appendix 1, 'Arrangements for dealing with complaints about the Code of Conduct for Members', section 4 'Preliminary Tests – two stages' (agenda page 30), would

be amended to read 'It is against one or more named members or co-opted members of the council or a town/parish council ~~outside~~ *inside* the council's area'.

5. With reference made to section 6 'Informal Resolution' (agenda page 32), statistics relating to informal resolutions would be provided in the annual report. It was noted that the Monitoring Officer would determine whether an investigation was in the public interest, taking into account the recommendation of the officer dealing with the complaint and the views of two Independent Persons.
6. With reference made to section 12 'Sanctions' (agenda page 35), sanction (3) 'Instruct the Monitoring Officer, or recommending to the Parish / Town Council, to arrange training for the member', the Monitoring Officer could arrange training for a Herefordshire Council member but could only make a recommendation to a local council.
7. In the event that no further applicants came forward, potential options for the roles undertaken by the Independent Persons could be considered
8. It was intended that the annual code of conduct report would be presented to the June 2023 meeting and this would be added to the work programme for 2023/24.

Resolved:

That:

- a) **Full Council (at its Annual Meeting) be recommended to appoint Jake Bharier and Claire Jenkins as Independent Persons for a four year term (this recommendation may be modified if more approved applicants were identified before the next meeting of the committee);**
- b) **The revised procedure to be used when dealing with complaints, set out at Appendix 2 to the report, be noted; and**
- c) **The new website pages be noted.**

Action(s)

- 189 The link to the dedicated Code of Conduct complaints area on the council's website be provided to committee members.

Action update:

The new 'Code of Conduct complaints' webpage is available at:
<https://www.herefordshire.gov.uk/council/get-involved/8>

78. WHISTLEBLOWING POLICY

The Senior Lawyer introduced the report, the principal points included:

- i. The Whistleblowing Policy had been rewritten to: provide clarity about the handling of concerns and the support to be provided; include a procedure for managers; enable the policy to be used by staff at maintained schools; and assure members of staff about the independence of the Monitoring Officer, as they had a legal duty to report to the Council any instances of non-compliance with the law or maladministration.

- ii. The draft policy had been informed by comments received from Human Resources but no comments had been received from the trade unions.
- iii. Following a discussion at a previous meeting ([minute 57 of 21 November 2022 refers](#)), further thought had been given to externalised support but, with around six to eight cases per year, it was considered that whistleblowing cases could be monitored through a spreadsheet.
- iv. If staff members did not feel able to raise a concern with a line manager or another senior officer, independent advice could be sought from Protect ([link to the website of the whistleblowing charity](#)) or matters could be reported through a relevant body ([link to a list of prescribed people and bodies](#)).
- v. In view of the channels available, it was not considered that the facility for staff to make disclosures via another local authority, currently Buckinghamshire Council, was necessary.

In response to questions from committee members, the Senior Lawyer advised:

1. The trade unions had not responded to a request to contribute to the review of the policy (11 January 2023) or to a request for comments on the proposed changes (9 February 2023).
2. The number of whistleblowing cases had been fairly consistent over the last four years and were slightly higher than those received by equivalent sized local authorities. Nevertheless, the need to publish and raise awareness of the revised policy was recognised.

A committee member commented on the need to raise awareness of the health and wellbeing services available to staff members.

The Chairperson suggested that committee members be informed about the process by which the policy would be propagated among staff members.

3. With reference made to the 2022 Employee Survey (where 78% of staff members agreed that 'I feel able to raise any concerns with my manager', and 65% agreed that 'I feel I could report a concern about my manager'), the added value of staff members being able to make disclosures via another local authority was explored further. The Senior Lawyer described the current arrangement as a 'postbox', with concerns referred to Herefordshire Council, and that Protect and other relevant bodies provided equivalent functions.

It was suggested that an additional question about whether staff members felt confident about using the Whistleblowing Policy could be considered for inclusion in the next Employee Survey.

4. It was confirmed that the council could commission external support on an 'ad hoc' basis in the event that independent investigations were needed.

Further points raised during the discussion included:

- It was considered that the item should be deferred to provide a further short period for the trade unions to comment, with appropriate encouragement to do so from Human Resources and from the Chairperson.
- In relation to the Whistleblowing Checklist (agenda page 49), where the employee had requested confidentiality, it was considered that the caveat 'we will not

disclose your identity, without your consent, unless required by law' should be subject to an explicit acknowledgement from the employee reporting the concern. It was suggested that the caveat could be repeated above the signature section (agenda page 52).

- It was requested that further consideration be given to the wording in section 5.7 'Raising your concerns', step three (agenda page 44), in relation to Protect and that an erroneous link in Appendix A 'Procedure for Managers Receiving a Concern' (agenda page 46) be corrected.

Resolved:

That consideration of the revised Whistleblowing Policy and associated guidance be deferred until the next meeting to provide a further short period for the trade unions to comment and for clarifications to be provided in terms of:

- a) The process by which the Whistleblowing Policy would be propagated among staff members;**
- b) The potential for an additional question to be included in the next Employee Survey about whether staff members felt confident about using the Whistleblowing Policy; and**
- c) Suggested changes to: explain the function of Protect in section 5.7, step three, of the Whistleblowing Policy; repeat the caveat on confidentiality before the signature box in the Whistleblowing Checklist; and correct the link in the Procedure for Managers Receiving a Concern.**

79. REVIEW OF APPROACH TO STRATEGIC RISK MANAGEMENT

This report had been circulated in a supplement to the agenda. The Director of Transformation introduced the report, the principal points included:

- i. The management of risk had been 'bottom up' rather than 'top down', and changes to the approach would include: rigorous reviewing and updating; consistency in the use of the scoring matrix; managing risks strategically; aggregating similar risks within and across the directorates; a proactive role for the Corporate Leadership Team (CLT) to provide opportunities for challenge and discussion; and a review of the council operating model, including the delivery of support services, as part of the Thrive Transformation Programme.
- ii. Processes would be reviewed in line with the principles of 'simplify, standardise, share'.
- iii. The Corporate Performance Team had made good progress in implementing the Corporate Performance Improvement Plan.
- iv. In addition to a request made by the committee 'to undertake a 'deep dive' into selected risks in the directorate risk registers' (actions 184), CLT intended to hold a similar workshop.
- v. Consideration would be given to external strategic risks, linking to the National Risk Register and the Local Resilience Forum.
- vi. Training would be commissioned for senior officers and members for the new municipal year.

- vii. CLT would set the organisational risk strategy in relation to the council's transformation programme.

In response to a question about the risk scoring matrix, paragraph 5 of the report (supplement page 4), the Director of Transformation noted the need to make it clear that the review frequency related to formal review and it was expected that the highest scoring risks would be monitored in the meantime.

Further points raised during the discussion included:

- It was not considered that recommendation b) of the report, that the committee 'review the approach to risk management in the context of the organisation embarking on a major transformation programme, Thrive', could be achieved at this meeting given the limited information provided in the report about Thrive.
- Disappointment was expressed that the strategic risk register was not yet available to the committee. It was requested that a further report to detail the approach to strategic risk management, including an associated risk management matrix, be provided within three months.
- The Vice-Chairperson noted that paragraph 9 (supplement pages 4 – 5) summarised the areas for improvement identified by the committee and commented on the need to: track changes to the risk management approach; understand the risks that may have been missed as a consequence of a lack of consistency in the approach to identifying them; and explain the connections with the work of health partners and the Health and Wellbeing Board.
- Given the potential changes to committee membership in the new municipal year, the Chairperson noted the need to provide appropriate background in the next report.

Resolved: That

- a) The steps being taken toward a more strategic approach and a more visible corporate grip on risk, in the light of the committee's previous discussions, be noted;**
- b) The assurances provided have been considered and the committee has commented on its content; and**
- c) A further report on the approach to strategic risk management be provided to the June 2023 meeting of the committee.**

Update: This further report is now expected at the September 2023 meeting.

80. WORK PROGRAMME

The committee's updated work programme was considered. With items awaited from Internal Audit and External Audit principally, plus further reports expected on 'Recruitment of Independent persons' and 'Whistleblowing Policy', it was intended that an additional committee meeting would be arranged before the end of the municipal year.

Resolved: That

- a) The updated work programme for the Audit and Governance Committee be agreed; and**

b) A further meeting be arranged before the end of the municipal year. *

[*Note: It was determined subsequently that it was appropriate to defer the business of the meeting until the next municipal year]

The meeting ended at 3.48 pm

Chairperson



Title of report: Progress report on internal audit activity Q4 2022/23

Meeting: Audit and Governance Committee

Meeting date: Friday 23 June 2023

Report by: Head of Internal Audit / Head of Strategic Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards)

Purpose

To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed. To enable the committee to monitor performance of the internal audit team against the approved plan.

To assure the committee that action is being taken on risk related issues identified by internal audit. This is monitored by acceptance by management of audit recommendations and progress updates in implementing the agreed action plans. In addition, audit recommendations not accepted by management are reviewed and progress to an appropriate recommendation to cabinet if it is considered that the course of action proposed by management presents a risk in terms of the effectiveness of or compliance with the council's control environment.

Recommendation(s)

That:

- a) the committee review the areas of activity and concern and be satisfied that necessary improvements are outlined and delivered; and**
- b) the committee note the report and consider the assurances provided and the recommendations which the report makes, commenting on its content as necessary.**

Alternative options

1. There are no alternative recommendations; it is a function of the committee to consider these matters in fulfilling its assurance role.

Key considerations

2. The internal audit progress report is attached at appendix A.
3. A glossary of terms is provided in the report.

Community impact

4. The council's code of corporate governance commits the council to managing risks and performance through robust internal control and strong public financial management and to implementing good practices in transparency, reporting, and audit to deliver effective accountability. By ensuring robust management responses to identified risks, the council will be better able to meet its corporate plan priority to secure better services, quality of life and value for money.

Environmental impact

5. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
6. Whilst this is a 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

7. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –
 - a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
8. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

9. None arising from the recommendations; any additional recommendations made by the committee will be considered by the relevant manager or cabinet member and the financial implications of accepting those recommendations will be considered then.

Legal implications

10. None.

Risk management

11. There is a risk that the level of work required to give an opinion on the council's systems of internal control is not achieved. This is mitigated by the regular active management and monitoring of progress against the agreed internal audit plan.
12. Risks identified by internal audit are mitigated by actions proposed by management in response. Progress on implementation of agreed actions is reported to this committee every six months by the Council's Corporate Performance Team.

Consultees

13. None.

Appendices

Appendix A SWAP Report on Internal Audit Activity, Quarter 4 2022/23

Background papers

None identified.

In partnership with



Appendix A

Herefordshire Council

Report on Internal Audit Activity

Quarter 4 2022/23


Publication Date: 15th June 2023






Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Unrestricted

Internal Audit Progress Report Quarter 4 2022/23

As part of our update reports, we will provide an ongoing opinion to support our end of year annual opinion. Internal Audit provides an independent and objective opinion on the Authority’s control environment by evaluating its effectiveness.

Rolling Opinion		Action Priority	Description	Actions
	<p>There is generally a sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.</p>	Priority 1	Fundamental	3
		Priority 2	Important	53
		Priority 3	Requires Attention	44

The Headlines for audits completed to date for 2022/23	
	46 assignments complete and 1 in progress at the end of Quarter 4 The delivery of internal audit work is on track to deliver an annual opinion. Overall, the indicative annual audit opinion for 2023/4 is “reasonable”
	Audit coverage for the year was “Good” or “Some” across most corporate risks. This coverage is sufficient to allow internal audit to give an annual opinion.
	There was continuing internal audit activity on advisory projects, special investigations, and grant certifications in Quarter 4.
	There were no high corporate risks identified in the quarter. However, there were “Limited” audit opinions issued for Registration Service, Housing Solutions, - Financial Process, and the Leavers Process. These reports will be presented in detail at the new meeting of the Committee.
	SWAP is migrating the Council to a new audit Management system in Quarter 2 2023/4. The system will provide real-time dashboards on the activity and outcome of our work to both Officers and Members.

Assurance Opinions as @ Q4	
Substantial	3
Reasonable	21
Limited	6
No Assurance	0
Special/ Advisory	16
Progress/ Activity as @ Q4	
Complete	46
Draft	0
In progress	1
Total	47

Internal Audit Progress Report Quarter 4 2022/23

Internal Audit Work Programme and Coverage

Primarily the work programme includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grant Assurance Work
- Other Special or Unplanned Review

The assessment of none, some, and good is based on the number of audits in these areas and the scope of the audits. This gives the Committee assurance that internal audit is aligned to the corporate risks although we would not expect all audits to align to all corporate risks.

Based on the corporate risks presented to Committee in April 2022, we have assessed internal audit coverage. This includes audits completed in 2020/21, 2021/22 and the current financial year (2022/23) and also future planned audits. Please note as future audits are not scoped yet there is potential for coverage to increase or decrease.

Risk Ref.	Audit Coverage	Future Coverage	Risk Narrative
CRR.60	None	Some	Development of Sufficiency strategy to support best value model. IF: the sufficiency strategy is not effective in a timely manner to meet outcomes for C&YP. THEN: high costs demands in order to meet service need will continue within the budget
CRR.61	Good	Some	Market workforce economy. IF: the current limited capacity within the social care workforce continues. THEN: there will be a significant impact on availability of services – this is currently affecting the Domiciliary care sector in particular and qualified nurse and management and other roles amongst care homes
CRR.63	Good	Some	Hereford City Centre Transport Package. IF the balance of land payments and costs for the ... garage and associated interests ... is higher than the allocated budget. THEN this could result in the land budget being exceeded which would further reduce the budget available for the remaining scheme elements. If this further education was too significant then it may not be possible to meet the objectives of the business case without further capital funding. This increase would arise from both an increase in value of the claim and also possible costs associated with the matter being referred to the upper land tribunal.
CRER.64	Some	Good	Inability to recruitment and retain social care staff and other key roles within the service. IF: Unable to retain and recruit social care staff and other key roles. THEN: Retention and recruitment to critical key roles of experienced staff will not be achieved
CRR.66	None	Some	Ofsted inspection. IF: There is an adverse Ofsted inspection outcome. THEN: This will have an impact on staffing and the progress on improvement
CRR.67	None	None	Ash Dieback (Chalara). IF: An action plan is not adopted to deal with the onset of Ash Die Back within the County boundaries. THEN: the authority faces significant unplanned financial burden linked to removal of a significant percentage of tree stock and an increased liability linked to personal injury and third-party damage claims.

Internal Audit Plan Progress 2022/23

A new risk assessment for 2023/24 has been undertaken that maps internal audit work to corporate priorities and risks. This will ensure that internal audit coverage is focused into key areas.

Risk Ref.	Audit Coverage	Future Coverage	Risk Narrative
CRR.68	None	None	Waste Collection Vehicles – lead time for supply of new vehicles. IF: Supply chain issues continue. THEN: there is a risk that we will not be able to secure the required new waste collection vehicles in time for the mobilisation of the new waste collection service in Nov 23.
CRR.69	Good	Some	CRR.69 – Hereford City Centre Improvement (HCCI) Programme. IF Delivery of HCCI is not delivered to programme. THEN this could increase revenue pressure on Public Realm

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At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Limited
- No

The schedule provided in Annex B contains a list of those audits completed, in draft, and in progress.



Internal Audit Progress and Outcomes

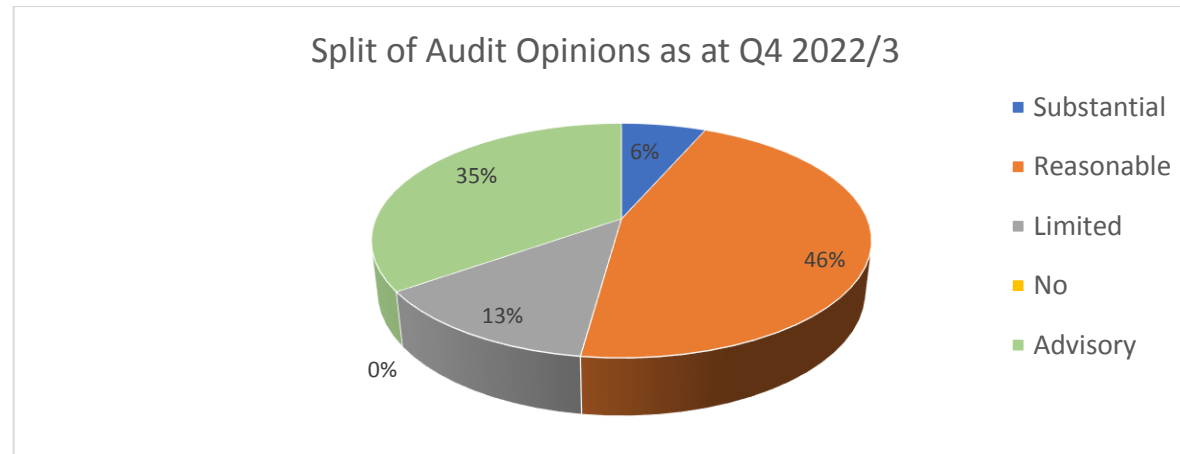
It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to deliver an annual opinion. Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of agreed actions that have been raised with management. The assurance opinion ratings have been determined in accordance with the “Audit Framework Definitions” as detailed in Annex 1 of this document.

Forty-six audits have been completed with 1 special investigation still being in progress at the end of Quarter 4. These are shown in more detail in Annex 2.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality, and professionalism. A score of 95% would reflect the fact that the client agreed that the review was delivered to a good standard of quality i.e., agreed with the statement in the questionnaire and satisfied with the audit process and report. The feedback score for the previous quarter was 100%.

Internal Audit Plan Progress 2022/23

We also undertake Advisory / Non-Opinion work on a consultancy basis where we have been asked to look at a specific area of potential concern



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There are no significant corporate risks that should be brought to the Committees attention for Quarter 4.



Significant Corporate Risks 2022/23

In this update, there are no final reports included with 'High' corporate risks.

Internal Audit Plan Progress 2022/23

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These are areas that we have identified as being significant control issues that should be brought to the attention of the Audit and Governance Committee.

Given the short turnaround of the Committee, these report will be presented in full to the next Committee where the Services will give an update on the delivery of the agreed actions.

A further report on the Leavers Process was also issued in the quarter. The outcomes of this assignment are still in discussion with the Council and so will be reported to the next Committee.



Audits with significant concern

The audit listed below have been issued with a limited opinion in Q4.

Registration Service: Final Report – February 2023



Audit Objective

To ensure that the Registration Service is adhering to the General Register Office (G.R.O.) regulations and requirements, and that recommendations from their Stock and Security Assurance inspection (February 2022) are being implemented.

Assurance Opinion



Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Number of Actions

Priority	Number
Priority 1	3
Priority 2	7
Priority 3	1
Total	11

Risks Reviewed

There is non-compliance with the Registration Service Act 1953 and the General Register Office (G.R.O.) regulations, which may lead to financial loss and reputational damage to the Council.

Assessment

Medium

HC Housing Solutions Team Financial Processes: Final Report – March 2023



Audit Objective

To review financial processes and controls within the Service to provide assurance that Service's budgets are being utilised in accordance with the requirements of the Team's Service Plan and statutory responsibilities.

Assurance Opinion



Limited (Medium) - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited

Number of Actions

Priority	Number
Priority 1	0
Priority 2	6
Priority 3	4
Total	10

Risks Reviewed

Financial control deficiencies within the Service may lead to budget overspends while also increasing the risk that fraudulent requests for financial support may be processed in good faith owing to poor segregation of duties and/or a lack of management oversight.

Assessment

Medium



SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Internal Audit Plan Progress 2022/23

Follow-Up audits are completed where the auditor could only provide limited assurance.



Follow Up Audits

The follow-up audit is to provide assurance to the Director, Senior Management and the Audit and Governance Committee that the key risks have been mitigated to an acceptable level. The table below shows the follow up position:

Audit Name	Status	Outcome
Payroll	Complete	Actions remediated - No significant Risks
Baseline Maturity Assessment of Fraud	Complete	Significant Progress - No Significant Risk
Pool Cars	Complete	Significant progress- No significant Risk
Building Maintenance & Cleaning	Complete	Significant Progress- No significant Risk
Disaster Recovery, Education Healthcare, Staff Parking and Section 106, Public Realm Contracts	In Progress	



Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.

Primarily, Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP, we seek to bring information and best practice to managers to help support their systems of risk management and control.

SWAP produce monthly “Round-up” newsletters that are sent to key stakeholders in the Council. The newsletters identify key areas of risk, control, and innovation in the Internal Audit Sector.

Contact Information

SWAP is an internal audit partnership covering 22 organisations. Herefordshire Council is a part-owner of SWAP, and we provide the internal audit service to the Council.

The contacts at SWAP in connection with this report are:

Ian Halstead

Assistant Director

ian.halstead@swapaudit.co.uk

Janine Davies

Principal Auditor

Janine.davies@swapaudit.co.uk

For further details see: www.swapaudit.co.uk

ANNEX 1

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Limited
- No

In addition, to our opinion-based work we will provide consultancy services. The advice offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance.

Recommendations are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

ANNEX 1

Control Assurance Definitions

Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Actions	Reporting Implications
	In addition to the corporate risk assessment, it is important that management know how important the issue is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. Each action has been given a priority rating at service level with the following definitions:
Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Table of Audits by Status									
Date on Pipeline	Audit	Directorate	Corporate Risk / Reason for inclusion in Plan / Brief outline of scope	Status	Opinion	No of Recs	Agreed Actions		
							P1= Fundamental P2= Important P3 = Useful		
							1	2	3
21/22	School Governance- Thematic Review	Children & Young People	Review the effectiveness of governance arrangements in schools	Complete	Advisory	0	0	0	0
21/22	Local Authority Covid 19 Test and Trace Contain Outbreak Management Fund Grant 2021/22: No 31/5518	Public Health	To provide assurance that the conditions of the Local Authority Community Testing Funding Grant are applied	Complete	Reasonable	0	0	0	0
Q1 20/21	Local Authority Test and Trace Support Payment Scheme Funding Grant Determination 2020/21: No:31/5789 - October, November, and December	Resources & Assurance	To provide assurance that the conditions of the Local Authority Support Payment Grant are applied	Complete	Reasonable	0	0	0	0
Q1 21/22	Local Authority Test and Trace Support Payment Scheme Funding Grant 2020/21: No:31/5789 (January, February, March)	Resources & Assurance	To provide assurance that the conditions of the Local Authority Community Testing Funding Grant are applied	Complete	Reasonable	0	0	0	0
Q1 21/22	Local Authority Community Testing Funding Grant Determination 2020/21: Nos 31/6054, 31/6097	Resources & Assurance	To provide assurance that the conditions of the Local Authority Community Testing Funding Grant Determination 2020/21: Nos 31/6054, 31/6097, and 31/6147 are adhered to and that all expenditure claimed is eligible within the scheme.	Complete	Reasonable	0	0	0	0
21/22	Protect and Vaccinate Grant Determination 2021/2022 No 31/5912	Community Wellbeing	To provide assurance that the terms of the Protect & Vaccinate Grant Determination (2021/22) (No.31/5912) have been adhered to.	Complete	Reasonable	0	0	0	0
21/22	Property Flood Resilience Support Scheme (Bellwin/ Resilience Management) - Quarter 1	Economy & Environment	To provide assurance that Herefordshire Council has complied with DEFRA Property Flood Resilience Recovery Support Scheme (2020) Local Authority Guidance April 2020, in the authorisation of owner's expenditure on their property.	Complete	Substantial	0	0	0	0

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Internal Audit Plan Progress 2022/23

Table of Audits by Status									
Date on Pipeline	Audit	Directorate	Corporate Risk / Reason for inclusion in Plan / Brief outline of scope	Status	Opinion	No of Recs	Agreed Actions		
							P1= Fundamental	P2= Important	P3 = Useful
							1	2	3
21/22	Property Flood Resilience Support Scheme (Bellwin/ Resilience Management) Quarter 2	Economy & Environment	Grant Certification (Quarterly Review with End of Scheme Report).	Complete	Substantial	0	0	0	0
Q2 22/23	Payment Authorisation outside of Financial Management System	Resources & Assurance	The Interim Head of Corporate Finance (Deputy 151 Officer) requested that SWAP Internal Audit Services verify the controls in place within service areas, for requests received for payment approval outside of the financial management system (Business World).	Complete	Advisory	0	0	0	0
Q1 22/23	Supporting Families – Quarter 1 22/23	Children & Young People	Grant Certification (Monthly Review with Quarterly Report)	Complete	Reasonable	0	0	0	0
Q1 22/23	Homelessness Prevention Grant (HPG) (2021/22) [No. 31/5546] & [No. 31/5863]	Community Wellbeing	To ensure that grant funding spend has been accordance with the grant terms and conditions.	Complete	Limited	0	0	0	0
For 22/23	S106 Holmer Road - Special Review	Economy & Environment	SWAP Internal Audit Services was commissioned by the Chief Finance Officer to complete a special review in relation to concerns raised by the Chief Executive regarding how the decision was made that there is no legal basis for the council to request the payment of part of the section 106 Transport Contribution assigned to the Holmer West Link.	Complete	Special Investigation	1	0	0	1
21/22	Fraud Risk Assessment	Resources & Assurance	Ongoing advisory work to update and maintain the Fraud Risk Assessment	Complete	Advisory	0	0	0	0
21/22	Court of Protection – Special Review Phase 1	Community Wellbeing	Restricted Disclosure - Authorised by S151 officer. Will be reported to Committee when appropriate.	Complete	Special Investigation	16	0	14	2

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Internal Audit Plan Progress 2022/23

Table of Audits by Status									
Date on Pipeline	Audit	Directorate	Corporate Risk / Reason for inclusion in Plan / Brief outline of scope	Status	Opinion	No of Recs	Agreed Actions		
							P1= Fundamental	P2= Important	P3 = Useful
							1	2	3
For 22/23	Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance Blocks) Specific Grant (2021/22): and Pothole Fund Specific Grant (2021/22): No.31/5506	Economy & Environment	To ensure that grant funding spend for 2021/22 has been accordance with the grant terms and conditions.	Complete	Reasonable	0	0	0	0
For 22/23	Bus Subsidy Ring-Fenced (Revenue) Grant 2021/22	Economy & Environment	To ensure that grant funding spend for 2021/22 has been accordance with the grant terms and conditions.	Complete	Reasonable	0	0	0	0
For 22/23	Supporting Families – Quarter 2	Children & Young People	Grant Certification (Monthly Review with Quarterly Report)	Complete	Reasonable	0	0	0	0
For 22/23	Public Health Grant Process	Public Health	Request of Chief Finance Officer to provide assurance that funding has been spent and achieved intended objectives/outcomes.	Complete	Limited	10	0	5	5
For 22/23	Baseline Assessment for the Maturity of Fraud – 2 nd Phase	Resources & Assurance	Follow up of baseline assessment to demonstrate progress in fraud maturity.	Complete	Advisory	0	0	0	0
21/22	Court of Protection- Additional Work Phase 2	Community Wellbeing	Restricted-Additional request for work from the CFO. Will be reported to Committee when Appropriate.	Complete	Special Investigation	n/a	n/a	n/a	n/a
Q2 22/23	Drug Treatment: Universal Grant Funding (31/5494)	Public Health	SWAP was informed on 26/8/22 that this grant funding required CIA sign off. Funding of £220, 000 had been provided by PHE.	Complete	Limited	0	0	0	0
21/22	Payroll Follow Up	Resources & Assurance	To provide assurance agreed actions have been implemented.	Complete	Non-Opinion	1	0	1	0

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SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Internal Audit Plan Progress 2022/23

Table of Audits by Status									
Date on Pipeline	Audit	Directorate	Corporate Risk / Reason for inclusion in Plan / Brief outline of scope	Status	Opinion	No of Recs	Agreed Actions		
							P1= Fundamental	P2= Important	P3 = Useful
							1	2	3
For 22/23	Disabled Facilities Grant	Community Wellbeing	Section 31 Grant Certification requiring C.I.A. sign off	Complete	Reasonable	0	0	0	0
Q3 22/23	Whistleblowing - Complaint	Children & Young People	Initial review of allegation requested by Director: Resources & Assurance, in order to establish whether there is possible fraudulent activity, and hence the requirement for a fraud investigation.	Complete	Advisory	0	0	0	0
21/22	Infection Control and Testing	Community Wellbeing	Assurance that the grant monies have been spent correctly and achieved desired outcomes (note: not grant certification work).	Complete	Reasonable	4	0	1	3
21/22	Direct Payments	Community Wellbeing	To provide assurance that the Council has processes and procedures in place to appropriately deal with potential fraud or mis use of direct payment funds via direct payment cards and that supporting processes and procedures are in place across adult social care teams to assist in identifying and dealing with fraud.	Complete	Reasonable	6	0	0	6
Q3 22/23	Supporting Families – Quarter 3	Children & Young People	Grant Certification (Monthly Review with Quarterly Report)	Complete	Reasonable	1	0	0	1
Q3 21/22 (req'd for Jan 23)	Adult Weight Management Services Grant	Public Health	This grant requires Chief Internal Auditor sign off by the end of January 2023. Notified December '22.	Complete	Reasonable	0	0	0	0
For 22/23	Technology Framework Review	Corporate (ICT)	Identified as an area for further work via the Cyber Security Framework audit.	Complete	Advisory	0	0	0	0
Q2 22/23	Registration Service	Governance & Law	Financial and procedural review of registration of Births, Deaths, and Marriages	Complete	Limited	11	3	7	1
22/23	Court of Protection- Special Investigation -Phase 3	Community Wellbeing	Restricted-Additional request for work from the CFO. Will be reported to Committee when Appropriate.	In Progress	Special Investigation	n/a	n/a	n/a	n/a

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Internal Audit Plan Progress 2022/23

Table of Audits by Status									
Date on Pipeline	Audit	Directorate	Corporate Risk / Reason for inclusion in Plan / Brief outline of scope	Status	Opinion	No of Recs	Agreed Actions		
							P1= Fundamental	P2= Important	P3 = Useful
							1	2	3
Q2 22/23	Housing Solutions Team Financial Processes	Community Wellbeing	New area following concerns raised during grant certification process about admin and financial processes	Complete	Limited	10	0	6	4
Q2 21/22	Green Homes Grant Phase 2	Economy & Environment	Section 31 Grant Certification requiring C.I.A. sign off	Complete	Reasonable	0	0	0	0
Q4 21/22 FOR 22/23	NNDR	Resources & Assurance	Key Financial Controls. Liability and Billing including discounts and exemptions.	Complete	Reasonable	4	0	0	4
Q4 21/22 FOR 22/23	Treasury Management	Resources & Assurance	Key Financial Controls - Full Audit	Complete	Substantial	2	0	0	2
Q2 21/22	Green Homes Grant – Phase 1	Economy & Environment	To ensure that grant funding spend has been in accordance with the grant terms and conditions. This grant is with Legal and a further inspection regime is being undertaken.	Complete	Reasonable	0	0	0	0
Q4 21/22 (req'd. for Q4 22/23)	Pool Cars Follow Up	Economy & Environment	Provide assurance previously agreed actions in the limited assurance report have been completed. Data analysis of usage to be completed if data allows.	Complete	Non-Opinion	3	0	2	1
For 22/23	Building Maintenance and Cleaning Agreement Follow Up	Economy & Environment	Provide assurance previously agreed actions in the limited assurance report have been completed.	Complete	Non-Opinion	1	0	1	0
Q4 21/22 (req'd. for Q4 22/23)	Supporting Families – Quarter 4	Children & Young People	Grant Certification (Monthly Review with Quarterly Report)	Complete	Reasonable	0	0	0	0
Q4 21/22 FOR 22/23	Main Accounting System	Resources & Assurance	Key Financial Controls	Complete	Reasonable	1	0	1	0

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Internal Audit Plan Progress 2022/23

Table of Audits by Status									
Date on Pipeline	Audit	Directorate	Corporate Risk / Reason for inclusion in Plan / Brief outline of scope	Status	Opinion	No of Recs	Agreed Actions		
							P1= Fundamental	P2= Important	P3 = Useful
							1	2	3
Q3 22/23	Disabled Facilities Grant Process	Community Wellbeing	Required to provide assurance around the processes for administration of the Disabled Facilities Grant.	Complete	Reasonable	13	0	5	8
21/22	Leavers Process	Corporate	Provide assurance control framework operating effectively between service areas, HR and IT. Ensuring Councils assets are protected.	Complete	Limited	16	0	10	6
Q2 22/23	Grant Administration – Working Group	Corporate	Support grant administration and control arrangements to be more efficient and effective.	Complete	Advisory	0	0	0	0
Q3 22/23	Supporting Families - DLUHC / HC Consultation Process	Children & Young People	Meetings with the DLUHC National Lead for Supporting Families, with regard to the updated SF Programme that has just been introduced. Involvement had been requested by SF Team & DLUHC, to ensure adequate audit coverage of the programme, and to discuss amount of audit coverage required for 23/24 to provide assurance as to compliance with programme t&cs.	Complete	Advisory	0	0	0	0
22/23	Payment authorisations outside of the Financial Management System - Advisory	Resources & Assurance	Following on from the advisory work completed at the beginning of the year assurance that implemented control frameworks are operating effectively.	Complete	Advisory	0	0	0	0
Q4 22/23	Biodiversity Net Gain Grant	Economy & Environment	Grant certification to enable approval of central government funds	Complete	Reasonable	0	0	0	0
Q1 22/23	Data Quality/Data Management	Corporate	Response from CLT to thematic issue raised in Internal Audit Progress Reports 2021/22.	Complete	Advisory	0	0	0	0

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Title of report: Internal Audit Plan and Charter 2023/24

Meeting: Audit and Governance Committee

Meeting date: Friday 23 June 2023

Report by: Head of Internal Audit / Head of Strategic Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards)

Purpose

To present the proposed internal audit plan for 2023/24 and internal audit charter to the Audit and Governance Committee for discussion and approval.

Recommendation(s)

That:

- a) The committee approve the internal audit plan and pipeline of future work (Appendix 1) to ensure there is sufficient coverage and delivery to give an annual opinion; and**
- b) The committee approve the internal audit charter (Appendix 2).**

Alternative options

1. There are no alternative recommendations; it is a function of the committee to consider these matters in fulfilling its assurance role.
2. The content of the plan may be amended; however, in doing so regard should be had to the overall prioritisation of resources, level of risk and/or evidence of control weakness.
3. The alternative option is to not approve the internal audit charter. As this is a requirement of the arrangements between Herefordshire Council and the South West Audit Partnership (SWAP) it would put us in breach of our agreement.

Further information on the subject of this report is available from
 Rachael Hart, Judith Tranmer, Tel: 01432 383775, Tel: 01432 261867, email:
 Rachael.Hart@herefordshire.gov.uk, judith.tranmer@herefordshire.gov.ukl

Key considerations

4. Internal Audit services are provided by South West Audit Partnership Limited (SWAP). The internal audit plan for 2023/24 is included in Appendix 1. The plan sets out the work required for internal audit to give an opinion on the adequacy and effectiveness of the council's risk management, governance and internal control arrangements.
5. Periodically throughout the financial year, the Chief Audit Executive, in conjunction with senior management, puts together a proposed plan of audit work. The objective of the planning process and subsequent plan is to put internal audit in a position to provide a well informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.
6. The outcomes of the reviews in the planned programme of work are designed to provide senior management and the Audit and Governance Committee with assurance on the adequacy of control and management of key risks faced by the council. Internal Audit planning and delivery processes continue to provide for agility and flexibility and to provide and guide sustainable and integrated assurance.
7. The internal audit charter is included in Appendix 2. The charter sets out the nature, role, responsibility, status and authority of internal auditing within Herefordshire Council, and to outline the scope of the internal audit work.

Community impact

8. The council's code of corporate governance commits the council to managing risks and performance through robust internal control and strong public financial management and to implementing good practices in transparency, reporting, and audit to deliver effective accountability. By ensuring robust management responses to identified risks, the council will be better able to meet its corporate plan priority to secure better services, quality of life and value for money.
9. The internal audit charter sets out the reporting arrangements to the Audit and Governance Committee demonstrating the council's openness and transparency in providing reports that are published in the public domain.

Environmental impact

10. 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.
11. 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

12. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –

- a. eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

- b. advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
 - c. foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
13. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

14. None arising from the recommendations; any additional recommendations made by the committee will be considered by the relevant manager or cabinet member and the financial implications of accepting those recommendations will be considered then.

Legal implications

15. In accordance with section 5 of the Accounts and Audit (England) Regulations 2015, the council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance.
16. The council is under a duty to make adequate arrangements for its internal audit functions and has chosen to appoint an external partner to assist with the discharge of this function.
17. The charter forms part of the legal agreement which the council has entered into with SWAP. Both parties have committed to refreshing the charter on an annual basis to establish a clear expectation of the annual priorities and processes by which the audit service will be provided.

Risk management

18. There is a risk that the level of work required to give an opinion on the council's systems of internal control is not achieved. This is mitigated by the regular active management and monitoring of progress against the agreed internal audit plan.
19. Risks identified by internal audit are mitigated by actions proposed by management in response. Progress on implementation of agreed actions is reported to this committee every six months by the council's corporate performance team.
20. Without an approved charter there is a risk that the SWAP will not have:
- a. the support of management and the council;
 - b. direct access and freedom to support to senior management including the chief executive and the audit and governance committee; and
 - c. access to any records, personnel or physical property of the council for audit work.

Consultees

21. None.

Appendices

Appendix 1 Internal Audit Plan 2023/24

Appendix 2 Internal Audit Charter

Background papers

None identified.

In partnership with



Herefordshire Council

Internal Audit Plan 2023-24 and Internal Audit Charter

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Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

The Internal Audit Plan: Summary

The work of Internal Audit should align strategically with the aims and objectives of the Council, taking into account key risks, operations and changes. In order to do this Internal Audit needs to be flexible in adapting audit plans to handle rapidly changing risks, priorities and challenges.

It is the responsibility of the Extended Leadership Team, and the Audit & Governance Committee to ensure that the audit work scheduled and completed throughout the year contains sufficient and appropriate coverage of key risks.

Delivery of an internal audit programme of work that provides sufficient and appropriate coverage, will enable us to provide a well-informed and comprehensive year-end annual internal audit opinion.



Introduction and Objective of the Internal Audit Plan

The COVID pandemic required Local Authorities to be responsive and adaptive, needing them to be able to reprioritise and shift focus at speed. Whilst the pandemic is no longer the threat that it was, the ever-changing landscape within Local Government is likely to be here to stay. As a result, it is important that SWAP adopts a similarly flexible and responsive approach to audit planning, ensuring that we are supporting the Council by collaboratively aligning our work to its aims, objectives and key risks. This should ensure that we are auditing the right things, at the right time; enabling us to provide insight and value when and where it is required.

The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work will provide Senior Management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

It should be noted that internal audit is only one source of assurance, and the outcomes of internal audit reviews should be considered alongside other sources, as part of the ‘three lines’ assurance model. Key findings from our internal audit work should also be considered in conjunction with completion of the Authority’s AGS.

When reviewing the proposed internal audit plan (as set out in Appendix 1), key questions to consider include:

- Are the areas selected for coverage this coming year appropriate?
- Does the internal audit plan cover the organisation’s key risks in priority areas?

The Internal Audit Plan: Approach

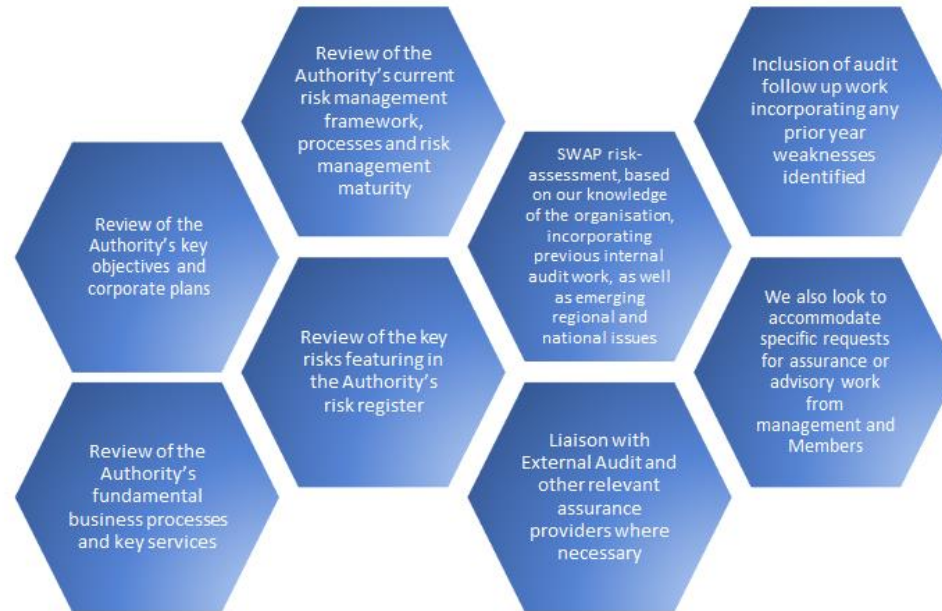
To develop an appropriate risk-based audit plan, SWAP have consulted with senior management, as well as reviewing key documentation, in order to obtain an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes.

Our approach to Internal Audit planning throughout 2023/24 will be a continuous risk assessment and rolling plan approach.



Approach to Internal Audit Planning 2023/24

The factors considered in putting together the 2023/24 internal audit plan have been set out below:



Due to the pace of change within Local Authorities, it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to internal audit planning has therefore also changed to reflect this. Instead of preparing a full twelve-month plan, we will prepare six-monthly 'Agile' risk-assessed work plans, containing key areas of coverage, to ensure that we are auditing the right areas at the right time.

We will regularly re-visit and adjust our programme of audit work to ensure that it matches the changing risk profile of the organisation's operations, systems and controls.

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The Internal Audit Plan: Risk Assessment

A continuous risk assessment aligned to developing a rolling internal audit plan, ensures that sufficient and appropriate areas are identified for consideration.

It is the responsibility of the Council's Corporate leadership Team, and the Governance and Audit Committee to ensure that, following our risk assessment, the proposed plan contains sufficient and appropriate coverage.



Internal Audit Annual Risk Assessment

Our 2023/24 internal audit programme of work is based on a documented risk assessment, which SWAP will revisit regularly, but at least annually. The input of senior management as well as review of the Authority's risk register will be considered in this process.

Below we have set out a summary of the outcomes of the risk assessment for Herefordshire Council:



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The Internal Audit Plan: Coverage

Following our SWAP Risk Assessment above, we have set out how the proposed agile plan presented in Appendix 1 provides coverage of the Council's key corporate objectives and risks, as well as our core areas of recommended audit coverage.

Internal audit is only one source of assurance; therefore, where we have highlighted gaps in our coverage, assurance should be sought from other sources where possible in order to ensure sufficient and appropriate assurances are received.



Internal Audit Coverage in 2023/4

Following our SWAP risk assessment, we have set out below the extent to which the proposed plan presented in Appendix 1 provides coverage of the Authority's key corporate objectives and risks, as well as our core areas of recommended audit coverage:



Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. As such, internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss, or fraud.

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The Internal Audit Plan: Coverage

The page above sets out how our proposed 23/24 internal audit plan provides coverage of the Authority's key corporate objectives and risks, as well as our core areas of recommended audit coverage.


This page highlights any key risk areas where we believe internal audit coverage is currently missing.



Risk Coverage Missing from Proposed Internal Audit Plan

Following our SWAP risk assessment and the preparation of the proposed 23/24 audit plan, we have set out below any areas where we feel coverage of key risk areas is missing.

Where we have highlighted limited or no coverage, Senior Management and the Audit Committee should seek and confirm assurance from alternative sources, or consider re-focussing internal audit resource to provide coverage of these areas:

Key Risk Area	Level of Assessed Coverage
<p>Ash Dieback (Chalara) IF: An action plan is not adopted to deal with the onset of Ash Die Back within the County boundaries THEN: the Authority faces significant unplanned financial burden linked to removal of a significant percentage of tree stock and an increased liability linked to personal injury and third-party damage claims.</p>	



Your Internal Audit Service

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes 22 public sector partners, but also providing services to other clients throughout the UK.

Audit Resources

The 2023/24 internal audit programme of work will be equivalent to 900 days. The current internal audit resources available represent a sufficient and appropriate mix of seniority and skill to be effectively deployed to deliver the planned work.

External Quality Assurance

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors (IPPF).

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The Internal Audit Plan: Coverage

The key contacts in respect of your internal audit service for Herefordshire Council are:

Ian Halstead, Assistant Director
Janine Davies, Principal Auditor

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- Benchmarking and sharing of best-practice between our public-sector partners;
- Regular newsletters and bulletins containing emerging issues and significant risks identified across the SWAP partnership;
- Communication of fraud alerts received both regionally and nationally;
- Annual Member training sessions;
- Cifas Membership

The Internal Audit Charter guides the work of internal audit to ensure compliance with the International Professional Practices Framework.

Every three years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in February 2021 which confirmed general conformance with Internal Audit Standards.

Conflicts of Interest

We are not aware of any conflicts of interest within Herefordshire Council that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, & Competency.

Consultancy Engagements

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion and will be included in our plan of work.

Approach to Fraud

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have dedicated counter fraud resource available to undertake specific investigations if required. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

Our Reporting

A summary of internal audit activity will be reported quarterly to senior management and the Audit Committee. This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit & Governance Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.

Planned - (Those jobs in progress or scheduled)

Audit Assignment	Sponsor	Work Type	Status	Start period	Corp Plans	Corp risk	Serv. Risk	Fraud & IT Risk	SWAP Top 10 Risks	PI & Other	IA Risks	Health Org	Commentary
Data Maturity Assessment	Corporate	Assurance	In Progress	Jan 23			CS13		2.2			Info Man	Response from CLT to thematic issue raised in Internal Audit Progress Reports 2021/22.
Green Homes Grant 3 22/23	Economy & Environment	Grant Certification	Planned	Apr 23	ENV04	CRR79	EE39 /EE39 / CS28	Yes	1.3		Yes		To ensure that grant funding spend has been in accordance with the grant terms and conditions. This grant is with Legal and a further inspection regime is being undertaken.
Court of Protection-Special Investigation -Phase 3	Community Wellbeing	Investigation	In progress	Jan 23				Yes			Yes		Restricted-Additional request for work from the CFO. Will be reported to Committee when appropriate.
Accounts Payable	Resources & Assurance	Assurance	In Progress	April 23				Yes	4.1-4.12	Red PI		Fin Man	Key Financial Controls – Full Audit
Enterprise Zone Lessons Learned	Economy & Environment	Assurance	Planned	Re-assigned Q3 2023	ECO05		EE06			Amber PI			Assurance that the Council achieved what it set out to achieve and lessons learnt for future work (Model Farm).
Destination BID Lessons Learned	Economy & Environment	Assurance	In progress	Jan 23	ECO05		EE06			Amber PI			To ascertain the extent to which the Council's governance processes were applied prior to sign-off of the business case, whether HC had followed the regulations and guidance that cover BIDs and had acted with due diligence.

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Main Accounting System	Resources & Assurance	Assurance	Complete	Q1				Yes	4.1-4.12	Red Pis		Fin Man	Key Financial Controls
HCCTP & Public Realm Follow-up	Economy & Environment	Assurance	In progress	Q1	ENV02	CRR63 / CRR71 /CR69	EE17/ EE26/ EE31	Yes	1.2		Yes	Cont & Com	Provide assurance regarding historic changes to the public realm contract and work carried outside of the annual plan in preparation for the contract ending. To include a follow up of the Contract Management BBLP, Commissioning and Value for Money (BBLP) agreed actions.
Supporting Families – Quarter1 23/24	Children & Young People	Assurance	Planned	Q1	COM01/ COM02	CRR74/ CRR71	CS28		6.1			Fin Man	Grant Certification (Monthly Review with Quarterly Report)
Disaster Recovery Follow Up	Corporate (ICT)	Assurance	Planned	Q1			EE19/ CS18/ CS23	Yes	2.3/2.4/ 7.7		Yes	Corp Gov/ Info Man	Provide assurance previously agreed actions in the limited assurance report have been completed.
Education Health Care Plan Follow Up	Children & Young People	Follow-up	In Progress	Q1	COM01/ COM02	CRR74/ CRR71		Yes	6.1	Ofsted Report	Yes		Provide assurance previously agreed actions in the limited assurance report have been completed.
Staff Car Parking Business Passes – Follow Up	Economy & Environment	Follow-up	Planned	Q1							Yes		Provide assurance previously agreed actions in the limited assurance report have been completed.
Court of Protection / Advocacy	Community Wellbeing	Follow-up	Planned	Q1	COM01/ COM02	CRR64/ CRR81/ CRR78		Yes	3.3	Ofsted Report	Yes		Provide assurance previously agreed actions in the limited assurance report have been completed.
S106 Follow Up	Economy & Environment	Follow-up	Planned	Q1		COM03		Yes	1.1		Yes		Provide assurance previously agreed actions in the limited assurance report have been completed.
Grants Certification - Risk	Corporate	Advisory	Planned	Q1			CS28					Fin Man	An advisory piece to promote effective administration of government grants.

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Awareness and education Programme												
Risk Management	Resources & Assurance	Assurance	Planned	Delayed until Q3				2.3/2.4/7.7		Yes	Corp Gov/ Risk Man	Concerns expressed around the lack of info. on the Risk Registers, particularly around the mitigation of risks and lack of movement on risk rating. Will also review HC's approach to risk appetite.
Whistleblowing	Corporate	Assurance	Planned	Q1			Yes	4.13/2,1		Yes	Perf Man / Corp Gov	Review requested on the approach used the report potential concerns
Payroll	Resources & Assurance	Assurance	Planned	Q1			Yes				Fin Man	Key Financial Assurance work
Purchase Cards- Fraud	Resources & Assurance	Assurance	In progress	Q1			Yes				Fin Man	To review purchase card payments to reduce the risk of fraud and error
Children's Task Force	Children's & Young People	Advisory	In progress	Q1						Yes		To provide advisory support for Children Services post inspection
Budgetary Control/ Forecasted Costs for Placements	Children's & Young People	Assurance	In progress	Q1			Yes	4.1-4.12	Red PI	Yes	Fin Man	Requested following delays and concerns by 151 Officer and IA.
Biodiversity Net Gain grant	Economy & Environment	Assurance	In progress	Q1			CS28				Fin Man	Grant Certification to enable approval of central Government funds
Green Homes Grant 2021/2	Economy & Environment	Assurance	Complete	Q1			CS28				Fin Man	Grant Certification to enable approval of central Government funds
Local Cap Block Funding (Road & Pothole)	Highways	Assurance	Planned	Q1			CS28				Fin Man	Grant Certification to enable approval of central Government funds

Data Protection & GDPR Breaches	Governance & Performance	Assurance	In progress	Q1			EE07	Yes	2.3/2.4/7.7		Yes	Corp Gov/ Info Man	Review the risks around the possibility of data breaches, and to ascertain and evaluate the level of the preventative /proactive measures that the Council has in place to minimise the risk of such events occurring
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Pipeline (The next assignments to be undertaken)

Audit Assignment	Sponsor	Work Type	Status	Start Period	Corp. Plans	Corp. Risk	Serv. Risk	Fraud & IT Risk	SWAP Top 10 Risks	PI & Other	I.A. Risks	Health Org.	Commentary
Waste Strategy/ Contract	Economy & Environment	Assurance	Pipeline	Q2-3	ENV01	CRR68	EE03 / EE04		1.3	Amber PI		Contract & Com	To review the controls and governance in the delivery of the waste management strategy.
Active Travel Plans -Public Transport	Economy & Environment	Assurance	Pipeline	Q2-3	ENV02	CRR63 / CRR71 /CR69	EE17/ EE26/ EE31	yes	1.2			Contract & Com	To review the controls and governance in the delivery of the active travel plans.
Blue badge	Economy & Environment	Assurance	Pipeline	Q2-3	ENV02/ COM04	CRR63 / CRR71 /CR69	EE17/ EE26/ EE31	Yes	1.2				To focus on fraud prevention controls in the administration of blue badges.
Sustainable Procurement	Economy & Environment	Assurance	Pipeline	Q2-3	ENV05		EE09	Yes	1.3			Asset Manage	To determine how the principles of sustainability are considered in procurement.
School Establishment Audits	Children & Young People	Assurance	Pipeline	Q2-3	COM01/ COM02	CRR74/ CRR71		Yes	6.1	Ofsted Report			Undertaken School self-assessment as pilot exercise to measure good governance and financial management

Audit Assignment	Sponsor	Work Type	Status	Start Period	Corp. Plans	Corp. Risk	Serv. Risk	Fraud & IT Risk	SWAP Top 10 Risks	PI & Other	I.A. Risks	Health Org.	Commentary
Fostering	Children & Young People	Assurance	Pipeline	Q2-3	COM01/ COM02	CRR64/ CRR81/ CRR78			3.3	Ofsted Report			To review the foster care processes and controls
Direct Payments - Childrens	Children & Young People	Assurance	Pipeline	Q2-3	COM01/ COM02	CRR64/ CRR81/ CRR78		Yes	3.3	Ofsted Report			To review the process and fraud controls around direct payment applications and payments
Commissioning All Ages - Performance and Monitoring	Children & Young People	Assurance	Pipeline	Q2-3	COM01/ COM02/ COM04	CRR60	CF06	Yes	3.1/3.2/ 7.1	Ofsted Report	Exec Dir	Contract & Com	Review of process to outline targets, report delivery and monitor compliance across all Social Care areas
Commissioning All Ages Services-Commissioning	Children & Young People	Assurance	Pipeline	Q2-3	COM01/ COM02/ COM04	CRR60	CF06	Yes	3.1/3.2/ 7.1	Ofsted Report	Exec Dir	Contract & Com	Spot Contracts/ looking at compliance with the frameworks
Debtors-System		Assurance	Pipeline	Q2-3				Yes	4.1-4.12	Red Pls		Financial Man	Key Financial Assurance work
Follow up of ADAS Review	Community Wellbeing	Assurance	Pipeline	Q2-3	COM05	CRR73	AC06/ AC40		3.1/ 3.3				Progress of review of ADAS on readiness for Social Care Reform
Safeguarding Checks	Children & Young People	Assurance	Pipeline	Q2-3	COM01/ COM02	CRR64/ CRR81/ CRR78	CF04		3.3	Ofsted Report		Workforce	To review the administration and monitoring to ensure effective safeguarding
Planning-Enforcement	Economy & Environment	Assurance	Pipeline	Q2-3	COM03			Yes	1.1				Review the effectiveness of the measures to control unapproved buildings.

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Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Herefordshire Council, and to outline the scope of internal audit work.

Provision of Internal Audit Services

The internal audit service is provided by the SWAP Internal Audit Services (SWAP). This Charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Herefordshire Council, in conjunction with the SWAP Members Meeting. General financial provisions are laid down in the legal agreement, including the level of financial contribution, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment was determined by the S151 Officer in consultation with the Chief Executive of SWAP.

Role of Internal Audit

The Accounts and Audit (England) Regulations 2015, state that: *“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance.”*

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Organisation’s operations. It helps Herefordshire Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Responsibilities of Management, Audit & Governance Committee and Internal Audit***Management*¹**

Management is responsible for ensuring that SWAP has:

- the support of management and the organisation;
- direct access and freedom to report to senior management, including the Chief Executive and the Audit & Governance Committee;
- notification of suspected or detected fraud, corruption or impropriety.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Organisation. Management is also responsible for the appropriate and effective management of risk.

***Audit & Governance Committee*²**

The Audit & Governance Committee is responsible for approving the scope internal audit work, receiving communications from the SWAP Assistant Director on the progress of work undertaken, reviewing the independence, objectivity, performance, professionalism and effectiveness of the Internal Audit function, and obtaining reassurance from the SWAP Assistant Director as to whether there are any limitations on scope or resources.

¹ In this instance Management refers to the Corporate Management Team and Statutory Officers.

² In this instance Audit & Governance Committee relates to “The Board” referred to in the PSIAS.

Internal Audit

The SWAP Assistant Director, as Head of Internal Audit, is responsible for determining the scope, except where specified by statute, of internal audit work and for recommending the action to be taken on the outcome of, or findings from, their work.

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the mandatory elements of the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. SWAP has been independently assessed and found to be in Conformance with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for the organisation will not be asked to review any aspects of their previous department's work until a minimum of one year has elapsed.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP, the Executive Director and Assistant Director also report to the Section 151 Officer, and reports to the Audit Committee as set out below.

The Assistant Director will be the first and primary point of contact for the organisation for all matters relating to the Audit & Governance Committee, including the provision of periodic reports, as per company policy. The Assistant Director is also responsible for the design, development and delivery of audit plans, subject to the agreement of Herefordshire Council.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of the organisation.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information used for operational and strategic decision making, and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management and communication of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;

- assist management and Members to identify risks and controls with regard to the objectives of the organisation and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the organisation is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned, with performance and accountabilities established.
- reviewing the operations of the organisation in support of their anti-fraud and corruption policy, ethical expectations and corporate values, investigating where necessary.
- at the specific request of management, internal audit may provide consultancy services (including fraud investigation services) provided:
 - the internal auditor's independence is not compromised;
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay;
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources the work;
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit an internal audit plan to the Audit & Governance Committee for approval, setting out the recommended scope of their work in the period. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will record agreed actions to be taken by the appropriate Officers. SWAP will report regularly to the Audit & Governance Committee with a summary of their findings, including any persistent and outstanding issues.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Section 151 Office and other relevant Senior Officers.

The Assistant Director will submit an annual report to the Audit & Governance Committee providing an overall opinion of the status of risk and internal control within Audit & Governance Committee, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and SWAP Directors and Assistant Directors have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit and Governance Committee, the organisation's Chief Executive Officer or the External Audit Manager.



Title of report: External auditor's draft annual plan 2022/23

Meeting: Audit and Governance Committee

Meeting date: Friday 23 June 2023

Report by: Head of Strategic Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards)

Purpose

To review and agree the external auditor's draft plan for 2022/23.

Recommendation(s)

That:

- a) **The proposed external audit plan for 2022/23 in Appendix A is approved subject to any recommendations that the committee may wish to make;**
- b) **The committee note the "Informing the audit risk assessment" document in Appendix B; and**
- c) **The committee determine any recommendations it wishes to make to maximise the value of the combined internal and external audit processes.**

Alternative options

- 1. There are no alternative options to approving an external audit plan. The audit plan must meet statutory requirements, however it is open to the committee to identify any additional areas of risk they wish the external auditors to consider and to recommend any additional actions to maximise the value of the combined internal and external audit process.

Key considerations

2. The constitution provides that the Audit and Governance Committee will:
 - a. Review and agree the external auditor's annual plan and receive regular update reports on progress;
 - b. Comment on the scope and depth of external audit work and to ensure it gives value for money; and
 - c. Ensure that there are effective relationships between external and internal audit and that the value of the combined internal and external audit process is maximised.
3. Attached in Appendix A is the external audit plan for the audit of the 2022/23 statement of accounts which is due to commence in July 2023.
4. The appendix shares the audit approach, the focus of external audit work and the preparation work requirements. The audit risks have been identified as:
 - Management over-ride of controls - Appendix A - page 8;
 - Valuation of land and buildings - Appendix A - page 10;
 - Valuation of investment properties - Appendix A - page 10; and
 - Valuation of pension fund net liability - Appendix A - page 9.
5. Planning materiality has been determined at £9.0 million for the council, being 1.8% of 2022/23 gross operating costs from the draft statement of accounts. Errors and omissions above the materiality level of £9.0 million will be reported in the audit findings report. Clearly trivial has been set at £0.45 million, which is 5% of materiality, below which uncorrected omissions or misstatements are not reported by external audit.
6. The revised approach to value for money external audit work has been in place since 2021/22. The National Audit Office (NAO) requires auditors to structure their commentary on value for money arrangements under the following three specified reporting criteria:-
 - a. Financial sustainability - risks that the council cannot effectively plan and manage its resources to meet financial pressures;
 - b. Governance - a risk that the council has not made informed decisions and is not effectively managing its risks; and
 - c. Improving economy, efficiency and effectiveness - there is a risk that the council is not using its cost and performance data to improve the way it manages and delivers services.
7. The work that the external auditor will complete on the value for money arrangements is detailed on page 17 of Appendix A.
8. There are two auditing standards which have been updated this year; ISA 315 Identifying and assessing the risks of material misstatement and ISA 240 The auditor's responsibilities relating to fraud in an audit of financial statements. The extra work that the external auditor will complete for these auditing standards is detailed on page 19 of Appendix A.

9. The committee is asked to consider whether there are any comments it would like to make with reference to the external audit plan. Progress against the plan will be reported at future committee meetings.

Community impact

10. 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

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, for example by completing work remotely.

Equality duty

13. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –

 - a. eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b. advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
 - c. foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
14. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

15. The external audit plan in Appendix A highlights the proposed cost of the 2022/23 audit comprising the scale fee of £106,417 plus an additional fee of £57,885 to give a total proposed fee of £164,302.

Legal implications

16. The Accounts and Audit Regulations 2015 (the Regulations) requires the council to produce and publish an annual statement of accounts in accordance with the Regulations and "proper practice".

17. Section 21 of the Local Government Act 2003 defines “proper practice” for this purpose to be the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code) for the relevant year. The Code specifies the principles, practices, format and content required in the preparation of the statement of accounts.

Risk management

18. Appendix B documents the auditor’s questions and management responses in informing the audit risk assessment. The committee is invited to review the management responses provided.

Consultees

19. None.

Appendices

Appendix A External audit plan 2022/23

Appendix B Informing the audit risk assessment 2022/23

Background papers

None identified.



Herefordshire Council Audit Plan

Year ending 31 March 2023

12 June 2023



Contents



Your key Grant Thornton team members are:

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Section	Page	
Key matters	3	The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.
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Key matters



National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017/18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. For 2021/22 Herefordshire's opinion was issued in February 2023, after the national deadline of 30 November 2022 but ahead of most of its peers. The target sign off date for 2022/23 is the 30 September 2023. The Council met the deadline for producing its draft 2022/23 financial statements by 31 May 2023 and on this basis we have prioritised the commencement of our post-statements audit which will begin on 3 July 2023 with a target completion date of the 30 September 2023.

Key matters



Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, **has been agreed** with the Director of Resources and Assurance.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit & Governance Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit & Governance Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Herefordshire Council ('the Council') for those charged with governance. Our planning is well progressed but not complete, so this is an indicative plan. We will keep our opinion and VFM risk assessments under continuous review as planning concludes. Where appropriate, we will update our risk assessment to reflect emerging risks or findings and report this to the Council.

Respective responsibilities

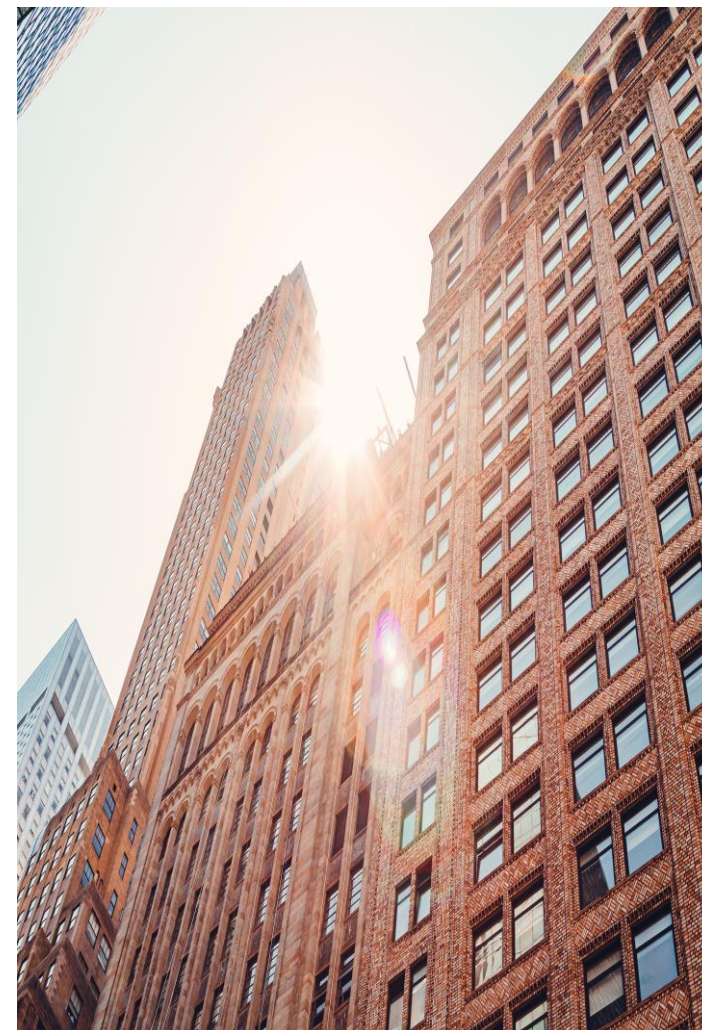
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Herefordshire Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit & Governance Committee); and we consider whether there are sufficient arrangements in place at the Council and Group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit & Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- management override of controls
- valuation of land and buildings
- valuation of investment properties
- valuation of the net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of Hoople Limited.

Materiality

We have determined to be £9.0m (PY £7.7m) for the Council and £9.1m (PY £7.9m) for the Group, which equates to 1.8% of your draft 2022/23 gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.450m (PY £0.385m) for the Council and £0.450m (PY £0.385m) for the Group which is 5% of materiality.

We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures.

We have set a materiality of £20k.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- The Council's failure to meet the statutory needs of children in its care.
- The Council's lack of effective contract management arrangements for its public realm and facilities management contracts, to enable it to hold its contractor to account.
- The Council's contract appointment and management arrangements, as it did not establish the validity of contracting and continuing to trade with a company which was dormant or otherwise non-trading from a formal perspective.

As part of our 2022/23 VFM work we will follow up all the improvement recommendations arising from our VFM work in the previous year.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit deliverables

Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our post-statements visit will commence in early July 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £164,302 (PY: £190,167) for the Council, subject to the Council delivering a good set of financial statements and working papers and there being no significant financial reporting or accounting matters requiring additional audit time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Group (where applicable) and Council	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated 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 relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Herefordshire Council mean that all forms of fraud are seen as unacceptable. 	No specific work is planned as the presumed risk has been rebutted.
Risk of fraud related to expenditure recognition PAF Practice Note 10 (rebutted)	Group (where applicable) and Council	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p> <p>We have rebutted this presumed risk for Herefordshire Council because:</p> <ul style="list-style-type: none"> • expenditure is well controlled and the Council has a strong control environment; and • the Council has clear and transparent reporting of its financial plans and financial position to the Council. <p>We therefore do not consider this to be a significant risk for Herefordshire Council.</p>	No specific work is planned as the presumed risk has been rebutted.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Council	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular: journals; management estimates; and transactions outside the course of business; as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Pension Fund Net Liability	Council only	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£24.1 million in the Authority's balance sheet at 31 March 2023) and the sensitivity of the estimate to changes in key assumptions.</p> <p>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 of practice for local government accounting (the applicable financial reporting framework). 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.</p> <p>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.</p> <p>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.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the authority's pension fund valuation • assess the accuracy and completeness of the information provided by the authority to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures • obtain assurances from the auditor of the pension fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings and investment properties and the key assumptions and judgements that underpin this significant estimate	Council only	<p>The Council revalues its land and buildings on a rolling five-yearly basis. For investment Properties the Council revalues these assets annually. These valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified the appropriateness of the specific inputs and assumptions that drive the valuation of land and buildings and investment properties as a significant risk, which was one of the most significant assessed risks of material misstatement..</p> <p>Given the value of the Council's land and buildings (£694.8m as at 31 March 2023) and investment properties (£41.9 at 31 March 2023) we have decided, in accordance with our approach at other similar councils, to appoint an auditors valuation expert in this area.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own valuer to assess the instruction to the authority's valuer, the authority's valuer's report and the assumptions that underpin the valuation • test revaluations made during the year to see if they had been input correctly into the group's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, 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.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Herefordshire Council	Yes	Audit of the financial information of the component using component materiality	Risks set out on pages 7-10 of this report.	Full scope audit performed by Grant Thornton UK LLP
Hoople Limited	No	Analytical procedures at group level	None	Analytical review performed by Grant Thornton UK LLP

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Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- 74 • We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality is £9.0m, which equates to 1.8% of your draft gross expenditure for the period.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none"> – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £20k.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>
4	<p>Other communications relating to materiality we will report to the Audit & Governance Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit & Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<p>We report to the Audit & Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £450k (PY £385k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit & Governance Committee to assist it in fulfilling its governance responsibilities.</p>

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	9,100,000	9,000,000	Materiality has been based on 1.8% of Gross Operating Expenditure for the Council, and 1.8% of Gross Operating Expenditure for the Group.
Performance materiality	6,300,000	6,300,000	Low level of deficiencies in control environment in prior years.
Trivial matters	450,000	450,000	Based on 5% of materiality.
Materiality for specific transactions, balances or disclosures [senior officer remuneration]	20,000	20,000	We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £20k.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

We plan to rely on the operation of application controls whether automated / IT dependent and will therefore carry out an extended ITGC assessment on the IT systems that support the operation of those controls. This is to gain assurance that the relevant controls have been operating effectively throughout the period.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

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IT system	Audit area	Planned level IT audit assessment
Business World	Financial reporting	Detailed ITGC assessment (design and operating effectiveness)
Business World	Payroll	Detailed ITGC assessment (design effectiveness only)
Academy	Housing Rents	Streamlined ITGC design assessment

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

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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.

We are currently in the process of finalising our 2021/22 Value for Money work. Once concluded we will undertake our planning in this area and report on any risks of significant weaknesses to those charged with governance. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Audit logistics and team

Planning and
risk assessment

Audit
committee
June

Audit Plan

Year end audit
July – September 2023

Audit
committee
September

Audit Findings
Report/Draft
Auditor's
Annual Report

Audit
committee
December

Auditor's
Annual
Report



Peter Barber, Key Audit Partner

Responsible for overall quality control; accounts opinions; final authorisation of reports; and attendance at the Audit & Governance Committee.

.Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.



Roz Apperley, Interim Audit Manager

Responsible for the overall management of the audit; consideration of VFM work; quality assurance of audit work and outputs.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Herefordshire Council to begin with effect from 2018/19. The fee agreed in the contract was £36,499. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

- Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Director of Resources and Deputy Chief Executive.

Audit fees

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee 2022/23
Herefordshire Council Audit	£176,792	£190,167*	£162,302
Total audit fees (excluding VAT)	£176,792	£190,167*	£164,302

* Please note the 2021/22 final audit fee reported in our 2021/22 ISA260 addendum to Audit Committee in March 2023 (£191,667) has been reduced by £1500 following submission of the additional fees to PSAA. The final payable audit fee for 2021/22 was therefore £190,167.

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Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \[revised 2019\]](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	Scale fee published by PSAA 2022-23	£106,417
	Value for Money audit – new NAO requirements	£20,000
	Use of expert – land and building and investment property	£5,260
	Group procedures	£3,750
8	Additional Requirements – Payroll Change of Circumstances (Information Provided by the Entity) IPE Testing	500
	Additional Requirements – Collection Fund Reliefs (Information Provided by the Entity) IPE Testing	750
	Increased audit requirements of revised ISA 540	£6,000
	Enhanced audit procedures on journals testing	£3,000
	Increased audit requirements of revised ISA 315	£5,000
	Infrastructure	2,500
	Increased FRC challenge	£3,125
	Triennial Pension Valuation Review	3,000
	Local risk factors	5,000
	All variations to the scale fee will need to be approved by PSAA	
	Total estimated audit fees 2022/23 (excluding VAT)	£164,302

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams.

Independence and non-audit services

Other services

The following other potential services provided by Grant Thornton are set out in the table below. This work is subject to agreeing individual arrangements with the Council.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

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Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits Claim	TBC	<p>Self-Interest (because this is a recurring fee)</p> <p>Self review (because GT provides audit services)</p> <p>Management (as GT report to the grant paying body)</p>	The expected level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total projected fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it will be a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teacher's Pensions Claim	£7,500	<p>Self-Interest (because this is a recurring fee)</p> <p>Self review (because GT provides audit services)</p> <p>Management (as GT report to the grant paying body)</p>	The expected level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in comparison to the total projected fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it will be a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Communication of audit matters with those charged with governance

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Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		<p>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.</p> <p>This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.</p> <p>We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.</p> <p>Respective responsibilities</p> <p>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.</p> <p>The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	
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	•	•	
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		•	
Identification or suspicion of fraud[deliberate manipulation] involving management and/or which results in material misstatement of the financial statements [not typically council tax fraud]		•	
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	



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Informing the audit risk assessment for Herefordshire Council 2022/23

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. 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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Herefordshire Council external auditors and Herefordshire Council's Audit and governance committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance committee and supports the Audit and governance committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Herefordshire Council management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>Key issues will be the ongoing impact of the economic downturn, inflationary pressure and the cost of living crisis, which is likely to impact the financial statements, for example in asset valuations/impairments and debt recovery.</p> <p>There are no significant changes to the Code of Practice, and the council have decided not to early adopt IFRS16.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Herefordshire Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Accounting policies are reviewed and updated on an annual basis to ensure that existing policies are still correct and any new policies are added. There are no new policy additions for 22/23, but the accounting policy note has been split so that accounting policies are stated under each relevant note to the financial statements. Accounting policies that are not material to the financial statements have been removed as part of our de-cluttering process.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>Financial instruments comprise loans (debtors), investments, cash and cash equivalents, accounts receivable debtors, loans (creditors), accounts payable creditors and PFI liabilities. Financial instruments are accounted for in accordance with IFRS9.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>None in 22/23.</p>

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General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	An impairment review is carried out as part of year-end procedures. We are not aware of any circumstances so far that would indicate impairment for 22/23.
6. Are you aware of any guarantee contracts? If so, please provide further details	We are not aware of any guarantee contracts for 22/23.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	HC have outsourced many of the areas that could give rise to insurance claims, including highways maintenance, parks and open spaces maintenance and waste collection. We do not hold housing stock, and schools have their own insurance arrangements. There are no outstanding litigation cases for insurance.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Herefordshire Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>The council has utilised a number of different solicitors during the year for purposes including planning and children's proceedings. The provision ranges from acting as agents on discrete matters, to full conduct of a matter.</p> <p>A ledger extract of all transactions on the legal professional fees account code has been provided up to month 9 for 2022/23.</p>

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General Enquiries of Management

Question	Management response
9. Have any of the Herefordshire Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	We are not aware of any for 22/23.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Wilks Head & Eve (asset valuations), Hilco (Energy from Waste asset valuation), Link Group (Treasury Management advisors), Mercers (Actuary), Analyse Local (NNDR appeals), PWC (transformation).
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Assets will be assessed for credit loss provision as part of year-end procedures. We are not aware of any circumstances so far that would indicate a provision may be required for 22/23.

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Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit & Governance Committee and management. Management, with the oversight of the Audit & Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit & Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Herefordshire Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit & Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit & Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit & Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Herefordshire Council's management.

Fraud risk assessment

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Question	Management response
<p>1. Has Herefordshire Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>Yes. The council has a robust financial control framework, supported by financial procedure rules and an independent internal audit function. The council has a Counter Fraud Manager who is responsible for identifying and responding to issues relating to controls to prevent fraud, and also cases of fraud. Reports produced by the internal audit function and the Counter Fraud Manager are reviewed regularly by the Audit and Governance Committee.</p> <p>The processes for compilation of the Annual Governance Statement include Manager Checklists which inform the Director Assurance Statements and these include questions on risk and risk of fraud. These are reviewed by the Deputy section 151 officer, who also has responsibility for the financial statements.</p> <p>The Internal Audit Plan prepared by SWAP is prepared with reference to council's key risks and is reviewed on a cyclical basis to ensure it remains current and addresses new and emerging risks.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Those most at risk of fraud are considered to be low value transactions with manual interventions.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Herefordshire Council as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>Incidents of actual, suspected or alleged fraud are included within the Annual Fraud Report. There were 50 new corporate fraud cases, 64 concessionary travel fraud cases and 25 cyber fraud attempts dealt with by the council counter fraud team during 22/23. A copy of the Annual Fraud Report has been provided.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The council's Risk Management Plan documents how risks should be identified, recorded, monitored and communicated. Risks are monitored through Directorate and Corporate Risk Registers.</p> <p>The Audit & Governance Committee are responsible for ensuring that the council's risk management process is carried out effectively and information is reported annually and through the quarterly Internal Audit updates. Cabinet oversee risk management as part of the quarterly performance monitoring on the Budget & Performance Report. Individual Cabinet members regularly review risks within their portfolio as part of Cabinet Member Briefings.</p>
<p>66 5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Herefordshire Council where fraud is more likely to occur?</p>	<p>It has been identified that the residual risk of fraud is higher within some specific service areas across the Council. These include, but are not limited to the following;</p> <ul style="list-style-type: none"> • Council Tax – specifically reliefs, reductions and exemptions within the Revenues service • Business Rates – Specifically Business Rates avoidance • Blue Badges - Disability Parking Permits • Adult Social Care - specifically in Direct Payments, Financial Assessments, Court of Protection, Residential Care/ Supported Living facilities • Procurement – specifically where no formal tendering process is undertaken • Grants – specifically grant schemes aimed at administering funds for third party (individual and business sector) applicants • Finance / Payroll – External mandate fraud requests to change bank account details to a fraudulent account(s) • Insider fraud - the insider fraud threat has risen nationally across UK public and private sector organisations and is it a considered to be a higher risk due to the economic circumstances with the Cost of Living Crisis.

Fraud risk assessment

Question	Management response
6. What processes do Herefordshire Council have in place to identify and respond to risks of fraud?	The council has a Counter Fraud policy, Whistleblowing policy and Counter Fraud Strategy in place. These are prominent on the council website and detail the process for reporting potential fraud. The Counter Fraud Manager is responsible for identifying and responding to risks of fraud, which includes pro-active management through data matching exercises.

Fraud risk assessment

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Question	Management response
<p>7. How do you assess the overall control environment for Herefordshire Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>The council's internal control framework is supported by the Risk Management Strategy to provide a strong financial framework. The internal audit function tests the operating effectiveness of the control framework and regularly reports to management and the Audit & Governance Committee where weaknesses are identified.</p> <p>The process to prepare the council's Annual Governance Statement considers assurance from a variety of sources to determine the effectiveness of the overall control environment – these include external regulators and inspections, internal and external audit, governance teams, Manager Checklist and Director Assurance Statements.</p> <p>Policies and procedures which govern our business process are designed to provide separation of duties to reduce the risk of fraud and collusion and exception reporting, control account reconciliations and analytical review processes are used to identify fraudulent transactions and activity.</p> <p>We are not aware of any instances where there has been override of controls, or inappropriate influence for 22/23.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>We are not aware of any areas where there is potential for misreporting. The financial statements are subject to review by The Deputy Section 151 officer to reduce the potential for misreporting.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Herefordshire Council's communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The council has policies to communicate and encourage ethical behaviours including Counter Fraud policy, Whistleblowing policy, Code of conduct for employees and members. These are on the council website and intranet and detail the process for reporting concerns.</p> <p>Mandatory training for employees includes fraud awareness and prevention and employee code of conduct to highlight the importance of ethical behaviour annually. This training includes information on what types of fraud indicators staff might identify, the various types of fraud effecting public sector services, and the different routes on how to report fraud to the counter fraud service.</p> <p>In order to ensure external referrals can be made efficiently, the Council has introduced a new external fraud referral platform on the main Council webpage, inclusive of a referral form and fraud hotline.</p> <p>Details of fraud referrals that were received during the previous calendar year are outlined within the Council's Annual Fraud Report.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>There are no posts which have been determined as high risk from a fraud and corruption perspective.</p>

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Fraud risk assessment

Question	Management response
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Related party transactions are identified and monitored through routine reporting procedures. Risks associated with fraud due to related party transactions are mitigated through Member/Officer requirements to disclose all relevant relationships and transactions at Council and Committee meetings and via the Council's Registers of Gifts/Interests. As part of year end procedures, a review of Companies House is performed to check for any undisclosed related party relationships.</p> <p>We are not aware of any related party transactions that could give rise to instances of fraud.</p>

Fraud risk assessment

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Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Herefordshire Council?</p> <p>How does the Herefordshire Council exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Fraud and risk issues are reported on a quarterly basis to Audit & Governance Committee through reports from internal audit and the Counter Fraud Manager. The Audit & Governance Committee exercises oversight over management processes for identifying and responding to risks of fraud and breaches of internal control through challenge of internal audit reports, monitoring the implementation of recommendations and seeking additional assurances from operational management.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The Council has been contacted by whistleblowers during the last financial year. In each case the Council's whistleblowing policy has been followed. The matters have been investigated where appropriate by the service area or independent person and dependent on the findings, led to changes where necessary or have been dismissed (where appropriate).</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>There have been no referrals under the Bribery Act received by the council during 22/23.</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit & Governance Committee, is responsible for ensuring that Herefordshire Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and Audit & Governance Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

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Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Herefordshire Council's have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>The Council's Constitution identifies the Monitoring Officer as the individual responsible for reporting the actual or potential breach of a legal requirement to the Council meeting or Cabinet. The Monitoring Officer advises the Audit and Governance Committee on any areas of concern.</p> <p>We are not aware of any changes to the regulatory environment that would significantly impact the financial statements for 22/23.</p>
<p>2. How is the Audit & Governance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer advises the Audit and Governance Committee on any areas of concern.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>We are not aware of any instances during 22/23.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>There are no outstanding litigation cases for insurance. Legal risk register has been provided.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Herefordshire Council have in place to identify, evaluate and account for litigation or claims?	Litigation or claims are managed by Legal services and by The Risk and Assurance Manager. These are reported to the Section 151 officer as they arise and considered as part of year end procedures.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	We are not aware of any reports from other regulatory bodies that indicate non-compliance for 22/23.

Related Parties

Matters in relation to Related Parties

Herefordshire Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Herefordshire Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Authority's;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority's, or of any body that is a related party of the Authority's.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority's perspective but material from a related party viewpoint then the Authority's must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

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Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Herefordshire Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Herefordshire Council • whether Herefordshire Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>Related Party reviews are ongoing until the balance sheet date, but we are not aware of any changes to arrangements for 22/23.</p>
<p>2. What controls does Herefordshire Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Related party arrangements are reviewed annually to ensure that existing arrangements are still as disclosed, and any new arrangements are included in the disclosure. The review includes consideration of significant partnerships and other arrangements, review of officers and members declarations of interests, review of Companies House and discussions with directorate senior management and senior finance business partners. Transactions and balances are taken from the ledger and disclosed in the financial statements.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Transactions with Related Parties are subject to controls determined in the financial procedure rules.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Transactions with Related Parties are subject to controls determined in the financial procedure rules. Any significant transactions outside of the normal course of business would be subject to high level authorisation.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

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For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Herefordshire Council will no longer continue?</p>	<p>The Section 151 Officer attends CLT meetings where any issues would be discussed. As part of routine budget monitoring arrangements, the council's performance against the agreed budget is reviewed and any significant variances are investigated. The level and planned use of reserves is monitored throughout the year and over the medium term as part of the budget preparation cycle.</p>
<p>2. Are management aware of any factors which may mean for Herefordshire Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>Funding of statutory services is considered as part of the Medium Term Financial Strategy process. We are not aware of anything for 22/23.</p>
<p>3. With regard to the statutory services currently provided by Herefordshire Council, does Herefordshire Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Herefordshire Council to cease to exist?</p>	<p>The council expects to deliver statutory services for the foreseeable future.</p>

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Going Concern

Question	Management response
4. Are management satisfied that the financial reporting framework permits Herefordshire Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	The financial statements for 22/23 will be prepared on a going concern basis. We are not aware of any going concern issues that would indicate this would not be appropriate.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit & Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit & Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	<p>A review of accounting estimates is completed annually. Those accounting estimates which are deemed to be a potential material misstatement that are included in the accounting estimates disclosure note are:-</p> <ol style="list-style-type: none"> 1. Land and buildings valuation 2. Property, plant and equipment depreciation 3. Pensions net liability valuation
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	The risks relating to accounting estimates are identified, assessed and managed by the Corporate Finance team led by the section 151 officer.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	For the key accounting estimates, the methods and assumptions are provided by professional advisors (property valuers and actuaries).
4. How do management review the outcomes of previous accounting estimates?	For the key accounting estimates, the valuations are re-visited each year and the estimates are updated in the financial statements. Asset valuations are completed on a rolling programme. An assessment is made on the risk of material misstatement for those assets not included in the current valuation. Pension liabilities are valued annually.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	None for 22/23.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>External professional experts are used for those accounting estimates assessed to be at material risk of misstatement in the financial statements, because these require specialist knowledge/skills. Property valuers are utilised for land and building asset valuations (Royal Institute of Chartered Surveyors registered), and an actuary is utilised for pension liability valuation (Institute and Faculty of Actuaries registered). We also engage Treasury Management advisors to provide fair values for financial instruments.</p>
<p>7. How does the Authority's determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The processes for arriving at the accounting estimate are reviewed for areas requiring a control activity by a finance professional, by considering what could go wrong in the process, and what control could be put in place to prevent an error.</p> <p>The source data for all accounting estimates is considered and controls are designed to reduce the risk of error.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Controls checks are performed as part of year end procedures to review how the estimate has been arrived at. This will include check and challenge of the reports provided by our external experts.</p> <p>Where source data has been provided to inform estimates, checks are carried out to ensure that these have been accurately reflected in the resulting estimates. Eg. property areas for asset valuations and employee numbers for pension liability valuations.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Accounting estimates are controlled and managed by Financial Accounting Managers/Senior Finance Business Partners. These are reviewed and challenged by the Chief Accountant and the Head of Strategic Finance(Deputy S151 Officer).</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	Significant judgements that are disclosed in the financial statements are for group boundary and schools assets. Schools assets will be subject to accounting estimates due to land and building valuations. This is disclosed in the critical judgements note.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	A thorough review of all potential accounting estimates has been carried out for the 22/23 year-end (working paper is available upon request), where each estimate has been considered individually. This has resulted in an accounting estimates disclosure note that only includes those accounting estimates at risk of material misstatement due to estimation.
12. How is the Audit & Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Accounting estimates are considered by management prior to the year end and any considered to be material to the accounts are disclosed in the financial statements. The draft financial statements are presented to the Audit and Governance Committee for review. Material accounting estimates will be reported to A&G Committee alongside the draft financial statements.

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Assets are subject to professional revaluation on a rolling programme. Any assets that are not revalued in the year are considered for risk of material misstatement. Methods used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers.	Control activities are:- Check opening asset values to closing asset values on FAR. Check with property for any changes. Detailed work instruction to the valuers. Check of valuation report – source data relied upon, calculation, explanations for any significant changes in valuation.	External valuers used are Wilks Head & Eve LLP (for assets generally) and Hilco (for Energy from Waste asset).	The uncertainty over asset values is increased due to economic uncertainty, rising inflation, and the impact this has on the interest rates. Assumptions used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers. The disclosure in the estimation uncertainty note (note 4) considers a variation of 5% in the net book value of PPE. This gives an indication of the sensitivity of the revaluations on the balance sheet.	No change
Investment property valuations	Assets are subject to professional revaluation on a rolling programme. Any assets that are not revalued in the year are considered for risk of material misstatement. Methods used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers.	Control activities are:- Check opening asset values to closing asset values on FAR. Check with property for any changes. Detailed work instruction to the valuers. Check of valuation report – source data relied upon, calculation, explanations for any significant changes in valuation.	External valuers used are Wilks Head & Eve LLP (for assets generally).	There is uncertainty over investment property values due to the impact the economic downturn has on rental income. Assumptions used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers.	No change

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Those assets subject to external valuation are assigned a useful economic life (UEL) by the external valuers. Those assets not subject to external valuation are assigned a UEL by an officer from the council with relevant subject knowledge within expected ranges.	<p>Control activities are:-</p> <p>Check of FAR net book values to prior year. Reasonableness check on UELs. Check of calculation cells Reasonableness check on overall depreciation charge. Check of assumptions used by external valuer.</p> <p>Engagement with colleagues in Service to confirm UELs.</p>	External valuers used are Wilks Head & Eve LLP (for assets generally).	<p>The uncertainty over UELs is increased due to economic uncertainty and the impact this has on the repairs and maintenance programmes. Assumptions are:-</p> <ul style="list-style-type: none"> • There are no residual economic values to assets • There is no depreciation chargeable in the first year of the asset • That the UEL applied to each asset <p>Assumptions used by the qualified professional expert valuers are recognised by the Royal Institute of Chartered Surveyors (RICS) and are listed in the suite of documents issued each year by the valuers.</p> <p>The estimation uncertainty disclosure in the financial statements (see note 4) ascertains the estimated increase in the depreciation charge that would occur if the UELs were reduced by 1 year. This gives an indication of how sensitive the depreciation charge is to changes in UELs.</p>	No change

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Methods and assumptions used are industry standard and are listed in a report issued by the actuary	Control activities are:- Check of source data to ledger. Check of source data used by Mercers to source data sent. Overview of assumptions used by Mercers. Challenge of any movements in IAS 19 figures since the prior year.	Mercers are the actuaries used to estimate the net pension liability.	There is uncertainty over this estimate due to the reliance on many complex and interacting assumptions. These risks are addressed through the use of a qualified professional actuary, who uses methodologies and assumptions as recognised by The Institute and Faculty of Actuaries (IFA). The actuary supplies calculations of how changes in certain assumptions impact the net pension liability on the balance sheet. These are disclosed in the estimation uncertainty disclosure (note 4).	No change
Loans	Methods used by Link Group are included in their portfolio valuation	Control activities are:- Check of ledger balances to loan agreements. Check of ledger balances to portfolio valuation. Reasonableness check on assumptions used. Comparison of balances and fair values to the prior year.	Treasury Management advisors (Link Group) provide a portfolio valuation of financial assets and liabilities at the year-end.	The council has loans from the bank and public works loan board (PWLb). These are valued on the balance sheet at amortised cost. The loans are also included in fair value disclosures, the fair value is provided by Treasury Management advisors (Link Group) based on accepted methodologies and assumptions. Fair value disclosures compare the balance sheet carrying value to fair values based on the premature repayment rate and also based on the new loan rate.	No change

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
120 Accruals	Each manually journalled debtor or creditor is individually considered and calculated.	Control activities are:- Review of ledger for accruals needed. Comparison to prior year for accruals needed. Calculation of accrual and completion of QA checklist for each accrual. Review and challenge for significant accruals. Review of outturn to forecast for missing/over accruals.	No	As the council operates a no PO/no pay policy, most expenditure accruals are system driven by the PO accrual process. Manually journalled debtors and creditors are not material balances on the balance sheet, and are therefore unlikely to result in a material misstatement due to estimation uncertainty.	No change

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Each provision is individually considered and calculated.	Control activities are:- Review of provisions balance to prior year. Review of insurance/legal/property registers for potential areas of provision. Review of provision calculation working papers for evidence and reasonableness.	No	Provisions (excluding impairment allowances) are not a material balance on the balance sheet, and are therefore unlikely to result in a material misstatement due to estimation uncertainty.	No change
Credit loss and impairment allowances	Debtors in each category are individually assessed and an impairment allowance is determined based on debtors age and knowledge of individual debtors.	Control activities are:- Review of aged debt reports. Comparison to prior year allowance. Review and challenge by The Financial Accounting Manager.	No	There are 8 categories of impairment allowances, none of which are individually material. Categories are housing benefits, council tax, business rates, court costs, housing, fairer charging, business support grants and a general impairment allowance. Debtors in each category are individually assessed and an impairment allowance is determined based on debtors age and knowledge of individual debtors. A general impairment allowance is assessed to be 50% of debtors over 90 days.	No change

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI Liabilities	The liabilities are taken from the financial models set up at the start of the PFI schemes.	Control activities are:- Check of balances from ledger to financial model. Review of balances compared to prior year.	Yes	The liabilities on the balance sheet relating to the three PFI schemes are based on financial models which are subject to estimates and assumptions.	No change

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Title of report: Draft Annual Governance Statement 2022/23

Meeting: Audit and Governance Committee

Meeting date: Friday 23 June 2023

Report by: Head of Strategic Finance

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 draft Annual Governance Statement (AGS) for 2022/23 properly reflects the internal control environment the council is operating in and the appropriateness of actions identified to improve governance arrangements.

Recommendation(s)

That:

- a) **the committee determines whether the draft annual governance statement in Appendix 1 properly reflects the risk environment the council is operating in and that areas where controls could be strengthened are appropriate.**

Alternative options

1. None; the publication of an annual governance statement is a requirement of the Accounts and Audit (England) Regulations 2015.
2. It is open to the committee to propose amendments to the draft statement to ensure it accurately reflects the council's governance arrangements and their effectiveness, and to ensure that proposed actions are appropriate.

Key considerations

3. 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 2022/23 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.
4. The draft AGS is informed by Directors and Statutory Officers' declarations, reviews of compliance with laws and regulations, corporate strategies, policies, plans and arrangements and internal audit reports and opinions. It will be updated to include any governance issues identified between the balance sheet date and publication of the statutory accounts.
5. 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 2022/23 and the key governance mechanisms in place to manage risks of failure in delivering outcomes and decision making.
6. 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.
7. This CIPFA guidance advises that statements should be meaningful but brief, high level, strategic and written in an open and readable style, and should include:
 - a. an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance;
 - b. reference to and assessment of the effectiveness of key elements of the governance framework (set out in the code of corporate governance) and the role of those responsible for the development and maintenance of the governance environment, such as the council, the executive, the audit committee, internal audit and others as appropriate;
 - c. an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework;
 - d. an agreed action plan showing actions taken, or proposed, to deal with significant governance issues;
 - e. reference to how issues raised in the previous year's annual governance statement have been resolved; and
 - f. a commitment to monitoring implementation as part of the next annual review.
8. There are a number of components that contribute to the draft AGS including:
 - a. Statutory officer comments;
 - b. Manager's checklist to inform each director's statement
9. The manager's checklist has been completed at assistant director level, with opportunity for other managers to complete from. This is then forwarded to the director in each directorate (or monitoring officer in the corporate centre) to review and contribute to their own statement.

10. The actions identified to deliver continuous improvement in governance arrangements following the review of 2022/23 will form part of an action plan and progress will be reported to this committee.
11. Following a review of our processes, and in consultation with the Monitoring Officer and S151 Officer, the financial threshold which requires the publication of a Record of Operational Decision (RoOD) has been increased from £50k to £250k and the Financial Procedure Rules and Guidance Notes have been updated to reflect this change.
12. Whilst this threshold has been increased, the financial and budgetary controls which govern operational decision making and approval to incur expenditure remain unchanged. All expenditure is subject to approval and the level of authorisation required is linked to the value of a transaction, as outlined in the Financial Procedure Rules and Guidance Notes and supported by council's scheme of delegation.
13. Expenditure is monitored through the council's monthly budget monitoring arrangements and accounting transactions, recorded and publicly reported in the annual Statement of Accounts, are subject to review by external audit as part of their statutory work. These controls ensure that expenditure incurred by the council is appropriately authorised and accurately recorded in the council's accounting system.

Community impact

14. 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.
15. The annual review ensures that our arrangements are effective in supporting achievement of the council's vision and county plan priorities.

Environmental impact

16. The 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 to agree the AGS which is a back office function 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

18. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to:

- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

- c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

19. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying ‘due regard’ in our decision making in the design of policies and in the delivery of services. As this is a factual update, we do not believe that it will have an impact on our equality duty.

Resource implications

20. 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

21. 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

22. 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.
Resources to implement.	Though no direct resource implications additional activity may lead to a resource impact.

Consultees

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

Appendices

Appendix 1 Draft Annual Governance Statement 2022/23

Background papers

None identified.

Draft Annual Governance Statement 2022/23

Appendix 1



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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 2022 to 31 March 2023, the key governance mechanisms in place and planned improvements for 2023/24 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.

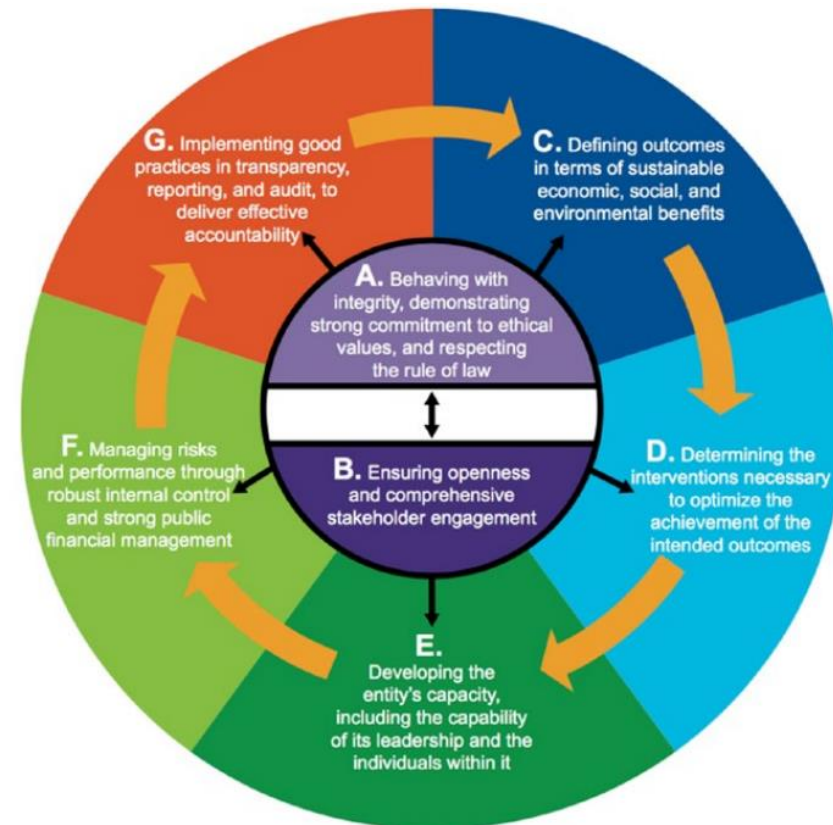
The purpose of the Governance Framework

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, 2022/23 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. 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 & 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 2022/23 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 2022/23

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 2022/23:

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:

- Codes of conduct for officers and Members, revised in 2022/23;
- The Constitution, reviewed in 2021/22 as part of the council's 'Rethinking Governance' programme and adopted in May 2022, which sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people;
- A Whistleblowing Policy, revised in 2022/23 to simplify and include further guidance for staff and managers, including alternative routes for staff and a manager checklist;
- An Equality Policy, to demonstrate our commitment to equality of opportunity for all citizens, in line with the Public Sector Duty as set out in the Equality Act 2010;
- Processes to support delivery of the council's ethical values including Declarations and Registers of Interests;
- A Corporate Complaints Policy ensuring effective investigation and appropriate response to formal complaints; and
- A Shareholder Committee, established in 2022/23, to provide governance arrangements in relation to companies and other legal entities wholly or partly owned, or controlled by the council.

The governance arrangements, as identified above, have been effective in the period from 1 April 2022 to 31 March 2023. 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 officer and Member training; to increase constitutional awareness and individual responsibility for compliance and ensure that these values become embedded in behaviour.

- Monitoring and oversight of financial and other risks and decision making in respect of the council's subsidiaries to ensure effective governance and separation of duties.
- The Shareholder Committee will ensure that the council's management of its obligations as shareholder, is structured and transparent.

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

Key aspects of the council's governance arrangements during 2022/23:

The Chief Executive and Corporate Leadership Team value and are committed to ensuring that employee feedback is sought, listened to and acted upon. To promote engagement and maintain effective employee relations, monthly all staff briefings are hosted by the Chief Executive and Leadership Group.

Activity during 2022/23 comprised:

- Strengthened engagement with staff through a weekly staff update to share staff news, wellbeing advice, training and development opportunities and relevant partner news.
- Flexible Futures: Investment in improvements to technology and workplaces to enable collaborative and flexible working practices and support the wellbeing of all employees.
- The 2022 Employee Survey: responses have been considered by the Corporate Leadership Team and the Employee Survey 2022-24 Action Plan has been developed to respond to the priorities identified. Progress against the plan will be reported quarterly.
- Feedback from events and surveys to inform the council's corporate priorities. Consultations and surveys, to engage the views of stakeholders, included: the Health and

Wellbeing Strategy, the Big Economic Plan, 2023/24 Budget proposals, Signs of Safety survey.

- The council's 'Making It Real' Board was reinvigorated to enable individuals with lived experience to play an active role in adult social care. Members of the Community Wellbeing Directorate Leadership Team have provided regular information and updates to the Board and sought input. In 2022/23, the Board has provided support to improve guidance for financial assessments and has been actively involved in plans for the new Museum to ensure that it is fully accessible.
- The Herefordshire Sustainable Growth Strategy Board was formed in 2022/23 to lead the development of the UK Shared Prosperity Investment Plan and Big Economic Plan. The Economy and Place Partnership Board, consisting of public, private and voluntary sectors, will lead the delivery of the plan in 2023/24 and beyond.
- The council's environmental ambitions and activities are driven by the Climate and Nature Partnership Board which brings together expertise and knowledge across conservation, wildlife, architecture, farming, agricultural policy and media sectors to drive and coordinate achieving zero carbon in the county by 2030.

The governance arrangements, as identified above, have been effective in the period from 1 April 2022 to 31 March 2023. Areas where it is recognised that governance arrangements could be further strengthened include:

- Improved co-ordination of the council's internal and external inspection and regulatory framework, to inform assurance and improve information sharing and shared learning from lessons learnt across the organisation.
- Continuous review and update of council strategies and policies which support stakeholder engagement and transparency; aligned to the council's wider transformation programme.

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

Key aspects of the council's governance arrangements during 2022/23:

- Cabinet agreed the Delivery Plan for 2022-23 on 31 March 2022, in delivery of the County Plan that runs from 2020 to 2024. Performance against the actions identified to deliver the ambitions of the Plan is monitored and reported to Cabinet quarterly. Reporting identifies the lead officer, outlines progress made in the quarter against the performance measures relevant to each action and indicates the assessed risk of delivery.

- There are three key objectives of the county plan that are followed through with actions in the delivery plan:

Environment: Protect and enhance our environment and keep Herefordshire a great place to live

Community: Strengthen communities to ensure everyone lives well and safe together

Economy: Support an economy which builds on the county's strengths and resources

- The council's Big Economic Plan and draft delivery plan sets a vision for sustainable economic growth of the county, improving the quality of life for all, while protecting the natural environment as a key asset. The Six Capitals approach, on which the plan is modelled, provides a framework of actions to tackle climate change and environmental issues, encourage community and social enterprise and identify opportunities in a growing green economy. Delivery of the Plan will be monitored by the Herefordshire Economy and Place Board.

- The Herefordshire Climate and Nature Partnership, established in 2021/22, has continued to drive the county's goal to become carbon net zero and nature rich by 2030 through community engagement and the Greener Footprints campaign.

The governance arrangements, as identified above, have been effective in the period from 1 April 2022 to 31 March 2023. Areas where it is recognised that governance arrangements could be further strengthened include:

- Improvements to the council's performance monitoring arrangements in 2023/24 will support transparent and timely reporting aligned to the council's priorities and key objectives.
- Development of the Herefordshire Economy and Place Board in 2023/24 to implement the Big Economic Plan and support effective and collaborative partnership working.
- Consideration of environmental, social and economic arrangements as part of the council's wider deliverables, governance and decision making processes.

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

Key aspects of the council's governance arrangements during 2022/23:

- 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.

- Performance against actions from the council's Delivery Plan was reported quarterly to Cabinet during 2022/23.
- 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.

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

- In addition to improvements in performance monitoring arrangements, there is a need for a robust system of accountability for performance against corporate, financial and management targets.
- Planned transformation activity in 2023/24 under the council's 'Thrive' programme will accelerate the achievement of improvements in service delivery to include digital transformation and an efficient and improved customer experience.

A key area for improvement for the council is the 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. 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 2022/23:

- To deliver the council's objectives, we rely on our staff to undertake daily duties underpinned by the PEOPLE values; a set of principles which shape our culture, guide activity and aid decision making:

People: treating people fairly, with compassion, respect and dignity

Excellence: striving for excellence, and the appropriate quality of services, care and life in Herefordshire

Openness: being open, transparent and accountable

Partnership: working in partnership and with all our diverse communities

Listening: actively listening to, understanding and taking into account people's views and needs

Environment: protecting and promoting our outstanding natural environment and heritage for the benefit of all

- Mandatory learning is in place for all staff and monitored by Directorate Leadership Teams. The council has invested significantly in its learning offer, informed by feedback from the employee survey. The My Learning Hub includes topics covering core skills identified as learning gaps in the survey including: coaching skills, resilience, public speaking and presentation, productivity and smarter working.
- The council's performance and development planning process: My Conversation, covers employee health and wellbeing, a review of performance, individual outcomes and personal development and this process promotes discussion and sharing of feedback and recognition.
- The Workforce and Organisation Development Strategy supports the council's aim to develop an engaged, agile and resilient workforce, enabled through the council's

Flexible Futures programme and planned transformation activity.

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

- The capacity and capability of Members and officers should be further developed through enhanced arrangements for tailored training relevant to individual roles and responsibilities.
- The council's recruitment and retention activity should be reviewed, in the context of regional and national recruitment challenges, to ensure the permanency of our workforce to create stability, consistency and continuous improvement in the delivery of services.

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 2022/23:

- 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 County Plan. Quarterly budget and performance reports are presented to Cabinet to report progress against the agreed revenue budget, capital programme, savings and service delivery targets.
- Risk management involves the identification, analysis and control of threats or events that adversely affect the achievement of the council's strategic and operational objectives. It also enables positive risks to be taken to innovate and improve service provision. The council's Risk Management Plan details the methodology for evaluating

corporate risk management arrangements and its delivery is monitored by Audit and Governance Committee.

- The council operates 3 levels of risk registers; Corporate, Directorate and Service. The highest risks are included in the Corporate Risk Register, with lower level operational risks recorded in Service Risk Registers. Alongside these, project risks are identified in Project and Programme Risk Registers.
- 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 been carried out in 2022/23: additional training has been delivered to staff and Members, the website content has been improved to aid the reporting of instances of fraud and we have continued to develop methods of partnership working to identify and investigate fraud.
- An assessment of the council's maturity in relation to fraud was carried out by Internal Audit during the year and this highlighted improvements in culture and awareness as well as reporting, investigating and monitoring.
- The council supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation.
- The Financial Procedures Rules (FPRs) control the way the council manages its finances and safeguards its assets. They form part of the Constitution and outline the financial roles and responsibilities for staff and Members and provide a framework for financial decision-making.
- A review of internal financial reporting has been undertaken during 2022/23. Through consultation with stakeholders across the council and collaborative working, improvements in monitoring and reporting have been delivered to support the early identification of key financial risks and the implementation of recovery plans and mitigating actions.

The governance arrangements, as identified above, have been effective in the period from 1 April 2022 to 31 March 2023. Areas where it is recognised that governance arrangements could be further strengthened include:

- Development of the Shareholder Committee, established during 2022/23, to monitor the position and performance of the council's subsidiary interests and identify risks relevant for escalation to Cabinet.
- A review of the council's risk management arrangements to ensure consistency, improved accountability and robust identification of actions to mitigate risk.
- The council's Corporate Leadership Team will set the organisational risk strategy aligned to planned transformation activity in 2023/24 and training will be developed for Officers and 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 2022/23:

- 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.
- 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 weekly 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.

The governance arrangements, as identified above, have been effective in the period from 1 April 2022 to 31 March 2023. Areas where it is recognised that governance arrangements could be further strengthened include:

- Increased focus on the council's performance measures and cohesive public reporting through improved performance monitoring and holding to account against corporate objectives.
- To ensure that there is an effective and transparent scrutiny process, additional training should be provided and a strengthening of arrangements for briefing sessions between Members and officers.

Significant Governance Issues

The review of governance arrangements has identified the following areas which will be a key focus for the council's leadership in 2023/24:

- **Improvements in Children's Services:** the Herefordshire Children's Services Improvement Plan has been developed to transform children's social care services. The detailed action plan sets out how the council will address each of the areas identified for improvement by Ofsted following a review of the service in July 2022 and a further area identified during a recent Local Government Association (LGA) Special Education Needs & Disabilities (SEND) Peer Review. It has been developed in collaboration with a range of stakeholders including children, young people, parents, carers, the workforce and multi-agency and cross-sector partners. Delivery against the plan will be monitored through the Children's Improvement Board, chaired by an independent Improvement Advisor, and reported to Cabinet. The council will continue to work closely with the Children's Commissioner and the Department for Education appointed Improvement Advisor, to deliver improvements in 2023/24. The Commissioner will continue to oversee the improvement programme and the council will look to secure a long-term improvement partnership with another Ofsted rated 'Good' or 'Outstanding' neighbouring local authority to support best practice in the implementation of activity to improve outcomes for children and young people across the county.
- **Financial Management & Resilience:** ensuring that financial monitoring is supported by a robust and realistic budget and effective and timely in-year monitoring of performance against budget and delivery of agreed savings plans.

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 2021/22, Grant Thornton gave an unqualified audit opinion on the financial statements.

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 2023, 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 2022 to 31 March 2023. 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: XX/XX/2023

Jonathan Lester
Leader of the Council
Date: XX/XX/2023



Title of report: 2022/23 Draft Statement of Accounts

Meeting: Audit and Governance Committee

Meeting date: Friday 23 June 2023

Report by: Head of Strategic Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards)

Purpose

To note the draft, unaudited Statement of Accounts for 2022/23.

Recommendation(s)

That:

- a) **Audit and Governance Committee note, and comment on as appropriate, the draft, unaudited Statement of Accounts for 2022/23.**

Alternative options

1. To not provide a Statement of Accounts. This is not an option. The Local Audit and Accountability Act 2014 requires the council to produce a Statement of Accounts in accordance with the Accounts and Audit Regulations 2015. 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 2022/23 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

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

sheet, movement in reserves statement, cash flow statement, collection fund statement, group accounts and supporting notes.

3. The council has prepared the draft Statement of Accounts for 2022/23 (Appendix 1) and published them on 31 May 2023, in line with the statutory deadline determined by the Accounts and Audit Regulations 2015 and provided accounts to the external auditors on this date.
4. It is anticipated that the external audit fieldwork will be completed by Grant Thornton UK LLP over July to September, with audited Statement of Accounts and audit findings to be presented at September meeting of this committee, to meet the statutory deadline of 30 September 2023.
5. The financial outturn position reported for 2022/23 is an overspend of £5.6 million against a net budget of £175.9 million (3.2%). The net deficit on the provision of services presented in the comprehensive income and expenditure statement is £32.6 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 remained at £9.6 million and earmarked reserves have decreased from £96.5 million to £81.8 million. These figures include balances of £9.3 million held for individual maintained schools.
7. The cumulative dedicated schools grant (DSG) deficit brought forward from last financial year of £0.3 million has increased by £0.8 million, representing the deficit in 2022/23, to £1.1 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 2022/23 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 2023 which are reflected in the 2022/23 draft statement of accounts.
9. Net assets on the balance sheet have increased from £342.7 million at 31 March 2022 to £604.9 million at 31 March 2023. The main reason for this is the movement in the net pension liability within other long term liabilities, which has decreased from £273.2 million to £24.1 million following the triennial pension valuation undertaken by the Pension Fund actuaries: Mercer Limited.
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 £3.3 million, which includes reserves applicable to the minority interest of £0.7 million.
11. The Statement of Accounts has been reviewed and decluttered for 2022/23 with significant changes to the presentation and ordering of the primary statements and supporting notes. The Statement of Accounts is now easier for the reader to understand, with the removal of non-material notes and disclosures, whilst still being compliant with the CIPFA Code. A summary financial statements document has also been produced (Appendix 2) to provide high level summary figures and brief explanations of the purpose of each statement in two pages.

Community impact

12. 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

13. The 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.
14. This report is to note the draft 2022/23 Statement of Accounts so will have minimal environmental impacts, however 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 will be completed remotely, reducing travel impact and paper usage.

Equality duty

15. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –

 - a. eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b. advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c. foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
16. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

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

Legal implications

18. Regulation 9 of the Accounts and Audit Regulations 2015 requires the following:
 - a. 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
 - b. A period of time to allow the public to inspect the accounts. This will commence on 1 June 2023 and last for six weeks; and
 - c. Once there has been a period of public inspection, the committee must approve the Statement of Accounts by a resolution and ensure that the Statement of Accounts are signed and dated by the person presiding at this committee.

Risk management

19. The council is required to make arrangements for the proper administration of its financial affairs and to secure that the Chief Financial Officer has the responsibility for the administration of those affairs. The council is also required to secure economic, efficient and effective use of resources on which Grant Thornton provide a value for money opinion.

Consultees

20. The Statement of Accounts was made available for public inspection for a six week period commencing 1 June 2023.

Appendices

Appendix 1 Draft Statement of Accounts 2022/23

Appendix 2 Summary Financial Statements 2022/23

Background papers

None identified.

Herefordshire Council Statement of Accounts 2022/23 (Subject to audit)



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Narrative report



Foreword by the Chief Executive

In my second year as Chief Executive, Councillors and staff have continued to work together to deliver improvements against our corporate priorities: strengthening the local economy, supporting vulnerable adults and children and helping residents, businesses and communities to recover from the impact of the pandemic. I would like to thank all of our Councillors, staff, partners and communities for their contribution throughout the year.

In February 2022, Council approved its budget for 2022/23 and performance against the 2022/23 budget is set out in this Statement of Accounts and the revenue outturn report presented to Cabinet. Despite unprecedented financial challenges throughout the year, we have managed pressures down to a £5.6 million overspend, representing 3.2% of our budget, whilst maintaining robust financial controls throughout the year.

Some notable successes in 2022/23 included:

- Continued progress towards the improvement of Children’s Services, with additional investment, a strengthened leadership team and focused activity to recruit and retain professional and caring staff to support families and children and build a better service for the future. The council is committed to safeguarding and improving outcomes for all children across Herefordshire remains a key priority.
- Our Adult Social Care teams have worked collaboratively with colleagues and partners during 2022/23 to respond to increases in demand and ensure that patients can be safely discharged with appropriate onward care to lead healthy and independent lives within their communities.
- We provided increased support to recognise the impact of the increasing cost of living on residents and businesses across the county: providing financial support to over 11,500 households through the Council Tax Reduction scheme, working with partners across communities to offer guidance to residents through Talk Community hubs, providing access to food, financial and wellbeing

advice and using the Household Support Fund to provide food vouchers and support with energy and heating costs.

- The council has made significant progress in creating a number of Integrated Wetlands, to remove phosphates and reduce pollution of our rivers and enable the ban on development in the north of the county to be lifted. Our innovative Phosphates Credits Trading scheme, the first of its kind in the country, enables developers to buy credits generated by the reduced pollution from operation of the wetlands to offset the impact of new developments on the environment.
- In January 2023, the council was awarded £19.9 million in Levelling-Up funding; this will support transport and travel improvements across the county and the development of a new Integrated Transport Hub to link cycling, walking, bus and rail transport in the city. The funding will also deliver improvements for pedestrians and cyclists and encourage safer active travel.
- We launched the Big Economic Plan in March 2023, setting out our vision for the growth of the county to 2050 and we look forward to working with partners and stakeholders to develop a thriving, vibrant and healthy Herefordshire for future generations.
- We have continued to invest in our staff through improvements to our workplaces and technology, to enable collaborative and flexible working, alongside our learning offer; to provide a range of development opportunities and support the wellbeing of all employees.

Looking forward to 2023/24, the council has set a balanced budget which is supported by robust financial controls and monitoring arrangements. We will continue to strengthen the council’s financial resilience to enable improvements in service delivery and to support the priorities of the County Plan.

Paul Walker
Chief Executive

About Herefordshire Council

Herefordshire is a county with a rich history and proud heritage, covering a geographic area of 2,180 km². 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.

In a year of continued economic challenge, the council has played a vital role in supporting residents and businesses to recover from the social and economic impact of the pandemic, whilst successfully delivering the council's services. The council has continued to make arrangements to secure value for money in its use of resources throughout the year; strengthening governance arrangements and managing key operational and financial risks to deliver corporate objectives and safeguard public money.

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Our Vision and Corporate Priorities

The County Plan sets out the council's vision for the future of Herefordshire:

“Respecting our past, shaping our future - we will improve the sustainability, connectivity and wellbeing of our county by strengthening our communities, creating a thriving local economy and protecting and enhancing our environment”.

Our vision is focused around three key ambitions, underpinned by corporate priorities as outlined in the Delivery Plan. Activity and progress against delivery of these priorities is monitored and has been reported regularly to Cabinet throughout 2022/23.

Environment

Protect and enhance our environment and keep Herefordshire a great place to live



Minimise waste and increase reuse, repair and recycling

Improve and extend active travel options throughout the county

Build understanding and support for sustainable living

Invest in low carbon projects

Identify climate change action in all aspects of council operation

Seek strong stewardship of the county's natural resources

Protect and enhance the county's biodiversity, value nature and uphold environmental standards

Community

Strengthen communities to ensure everyone lives well and safely together



Ensure all children are healthy, safe and inspired to achieve

Ensure that children in care, and moving on from care, are well supported and make good life choices

Build publicly owned sustainable and affordable houses and bring empty properties back into use

Protect and improve the lives of vulnerable people

Use technology to support home care and extend independent living

Support communities to help each other through a network of community hubs

Economy

Support an economy which builds on the county's strengths and resources



Develop environmentally sound infrastructure that attracts investment

Use council land to create economic opportunities and bring higher paid jobs to the county

Invest in education and the skills needed by employers

Enhance digital connectivity for communities and business

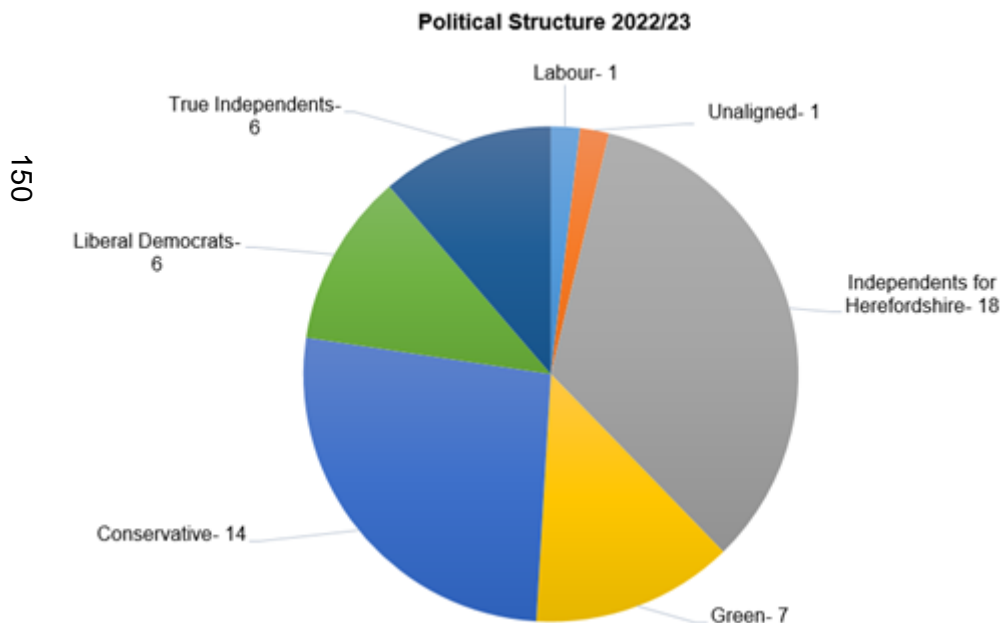
Protect and promote our heritage, culture and natural beauty to enhance quality of life and support tourism

Spend public money in the local economy wherever possible

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 make constitutional decisions.

The chart below shows the political structure of the council for the period of 1 April 2022 to 31 March 2023:



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 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.

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 and the Corporate Centre. 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. 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.

Over the last 12 months, the number of permanent admissions to residential care has significantly increased as a result of an increasing number of individuals requiring special support following discharge from hospital. There has been a decrease in the number of older people who were still at home 91 days after discharge from hospital to reablement/rehabilitation services due to increased complexity of need meaning individuals have been unable to remain at home and required more specialist support.

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We have continued to support residents with the cost of living crisis during 2022/23 with financial support provided for vulnerable households, school holiday food vouchers provided for children in receipt of free school meals and additional support for eligible households, care leavers and pensioners towards food and energy costs. Wellbeing events and cost of living roadshows, hosted across the county, have delivered financial advice and support to our communities.

We remain committed to ensuring the quality of services for people needing our support and safeguarding and protecting vulnerable people from harm. Emergency overnight accommodation was successfully delivered during the winter months and at times of severe weather, in partnership with a faith based voluntary sector provider.

Economy and Environment

The council's Big Economic Plan was launched in 2022/23 setting out a 2050 vision to transform our local economy and create higher paid sustainable jobs for local people. We were amongst 20% of successful applicants to the Levelling-Up Fund, securing c. £20 million to enhance transport connectivity in Hereford, including a new transport hub and active travel measures across the city.

The Hereford City Centre Improvement package has seen the introduction of a new contra flow cycleway in St Owens Street. This scheme will help to remove barriers to cycling through the city and provides an essential link for active travel.

Increased energy bills continue to be a source of financial pressure for residents and businesses of Herefordshire; our programme of advice and the retrofitting of properties continues to deliver real savings to previously energy inefficient buildings across the county.

The council's e-bikes 'Beryl Bikes' continue to grow in popularity, with bays at key locations. These bikes form part of a green sustainable transport system which enables users to travel around the city safely.

Children and Young People

The transformation of Children's services to improve outcomes for children and young people across the county remains a key priority for the council. We continue to work with the Commissioner, partner authorities, other agencies and families to address areas identified for improvement by Ofsted following its review in 2022/23. A detailed Improvement Plan has been developed to deliver significant and sustainable improvements to the support we offer to children young people and their families.

The first formal Monitoring visit was conducted by Ofsted in the final quarter of 2022/23 and this recognised improvements in our outcomes and continued progress in achieving improvements in timescales.

Despite continuing national challenges, the additional funding approved for the Children's Improvement Plan has delivered significant and sustainable improvements across the service in 2022/23. A focus on recruitment and retention activity is driving a positive impact on caseloads and efficiencies in practice standards have provided increased opportunities to work more directly with children and young people and for early family engagement. Enhanced management information has been used to drive improvements in working practices and support informed decision making.

Our Financial Performance

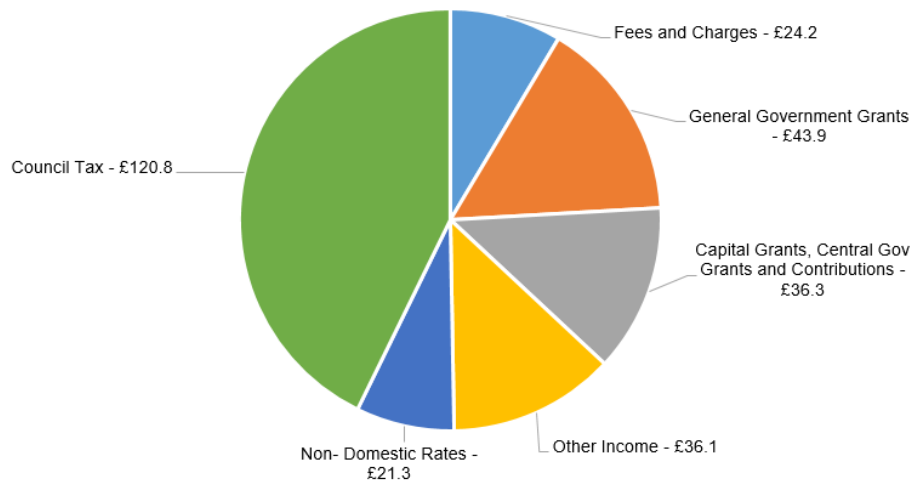
Revenue Summary

The council receives funding from three main sources:

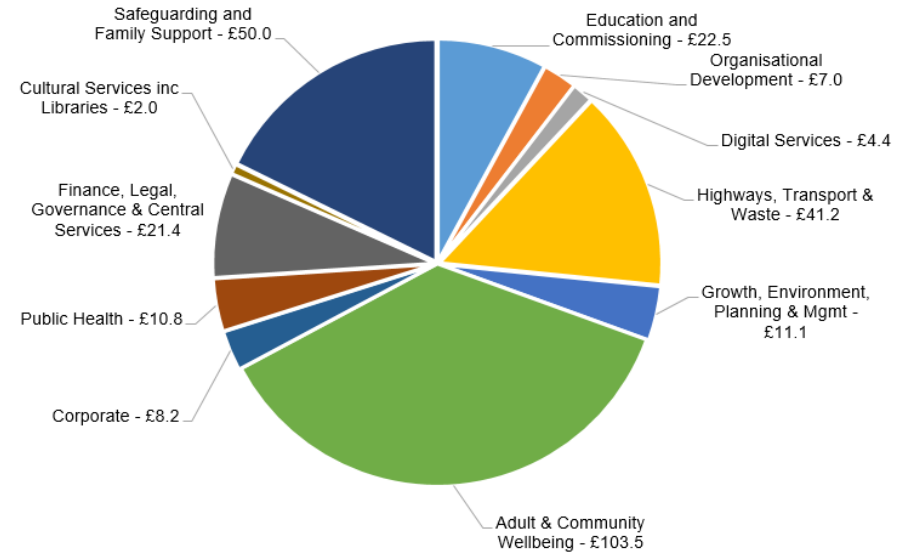
- Government grants
- Council tax
- Business rates

The council also generates income from fees and charges from the services it provides. The charts below show the funding received in 2022/23 and how these funds were spent on services in the year:

Gross Funding and Income 2022/23 £m



Gross Expenditure 2022/23 £m



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2022/23 Revenue Outturn

In February 2022, the council approved a net revenue budget of £175.9 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 faced net cost pressures of £5.6 million (3.2% of budget) in 2022/23 after accounting for the one-off use of brought forward COVID Outbreak Management Fund (COMF) monies against eligible expenditure in 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.

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Service area	Budget £m	Outturn £m	Variance £m
Children and Young People	52.930	62.548	9.618
Community Wellbeing	68.398	67.248	(1.150)
Economy and Environment	27.912	27.574	(0.338)
Corporate Services	18.029	17.253	(0.776)
Sub Total: Services	167.269	174.623	7.354
Central, Treasury Management	8.639	6.844	(1.795)
Total	175.908	181.467	5.559

The £9.6 million overspend in Children and Young People reflects the significant pressures facing the Directorate in respect of increases in unit cost prices, inflation and rising demand for placements and transport services in 2022/23.

The Community Wellbeing Directorate budget returned an underspend of £1.2 million against its £68.4 million net budget. Demand has continued to increase in the year and the outturn position has been achieved through the robust management of care packages and the delivery of additional savings in 2022/23.

The Economy and Environment Directorate has delivered a small underspend of £0.3 million on its £27.9 million net budget. The outturn includes overspends in Planning and Development Control offset by additional income generation activity within the areas of Transport and Regulatory and Technical Services.

The Corporate Services Directorate achieved an underspend of £0.8 million which includes overspends in Asset Management and Property Services offset by a reduction in the bad debt provision following successful recovery of commercial debt in 2022/23 and positive variances in respect of the cost of the council’s pension fund deficit recovery contributions arising following the triennial actuarial valuation.

Central and Treasury Management budgets achieved a total underspend of £1.8 million which represents positive variances as a result of prudent treasury management activities in line with the approved Treasury Management Strategy.

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 2022, the council approved an initial capital budget of £99.1 million for 2022/23. The final capital programme for the year following reprofiling of expenditure to future years and review of unspent project budgets brought forward from 2021/22 totalled £67.0 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 1 of the project, to provide 90% of the county with fibre broadband with a minimum speed of 26 Mbps, was successfully delivered in 2022/23. Phase 2 will extend coverage across the counties.
- **Hereford City Centre Transport Package:** final land compensation payments have been made and design work for the delivery of the transport hub is near completion; this project is supported by increased funding of £6.3 million from the Levelling-Up Fund.
- **Market Towns Investment:** resurfacing work has been undertaken in the market towns funded by capital budgets for highways and public realm maintenance and the annual Local Transport Plan Grant for highways improvements.
- **Integrated Wetlands:** sites across the county have been acquired to develop wetlands to address phosphate pollution within the River Lugg catchment and provide mitigation through the trading of phosphate credits which will unlock housing development in the north of the county and provide river betterment. The council's first constructed integrated wetland at Luston achieved nutrient certainty in July 2022 and the commencement of trading of phosphate credits for developers was authorised. Further sites will now be developed, funded by income generated from the sale of phosphate credits.
- **Home Energy Efficiencies:** Green Homes Grants and the Home Upgrade Grant have been distributed to enable residents to benefit from more energy efficient heating systems and energy efficient home improvements.
- **Hereford Enterprise Zone:** final infrastructure works were completed in 2022/23 to enable the council to market the remaining plots in 2023/24.
- **Herefordshire Hoard:** external funding to purchase the Herefordshire Hoard of coins and jewellery dating to the Viking period, was secured in 2022/23. The hoard, which represents the single most important archaeological find in half a century and of national significance, will have a future permanent home in the newly improved museum building.

2022/23 Capital Outturn

The total expenditure on capital projects in 2022/23 was £46.4 million which represents 69% of the revised budgeted programme. This expenditure was financed by capital grants of £31.6 million, prudential borrowing of £10.0 million, revenue reserves of £0.2 million and capital receipts of £4.6 million.

The £20.6 million underspend comprises £1.7 million of projects that have delivered below project budgets and £18.9 million of budgets to be carried forward to 2023/24.

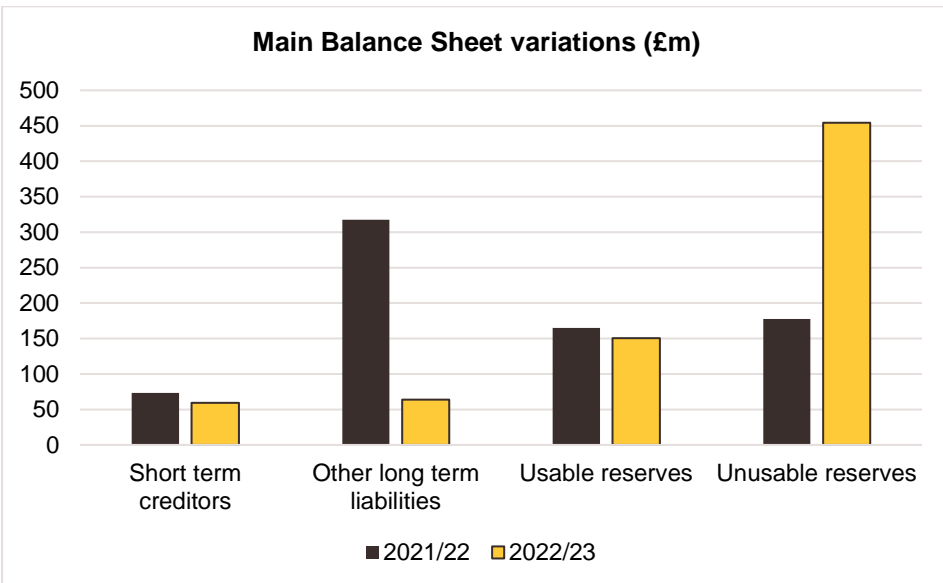
Summary Financial Position	Approved budget £m	Revised budget £m	Expenditure £m	Variance £m
Community Wellbeing Delivery Board	4.000	3.687	2.464	(1.223)
Housing and Accommodation Delivery Board	13.009	2.380	0.846	(1.534)
IT Services Partnership Board	1.923	1.591	0.604	(0.987)
Corporate Transformation Delivery Board	1.881	0.996	0.113	(0.883)
Asset Management Delivery Board	15.708	8.788	3.228	(5.560)
Planning Delivery Board	-	2.532	1.319	(1.213)
Highways Maintenance Delivery Board	19.594	23.615	19.556	(4.059)
Environment and Sustainability Delivery Board	2.556	5.964	2.957	(3.007)
Economic Development Delivery Board	26.196	9.067	9.313	0.246
Major External Funded Delivery Board	1.600	2.323	2.047	(0.276)
Sustainable Transport and Place Making Delivery Board	12.627	6.053	3.973	(2.080)
Total	99.094	66.996	46.420	(20.576)

Assets and Liabilities

The Balance Sheet summarises the council’s financial position at 31 March 2023 and reports the assets, liabilities and reserves which show what the council owns and how much it owes. The council’s net assets have increased by £262.2 million from £342.7 million at 31 March 2022 to £604.9 million at 31 March 2023. The key balance sheet variations are noted in the following table and chart:

Summary Financial Position	31 March 2022 £m	31 March 2023 £m	Movement £m
Assets (what we own)	885.9	877.0	(8.9)
Liabilities (what we owe)	(543.2)	(272.1)	271.1
Net financial position (assets less liabilities)	342.7	604.9	262.2
The net financial position is held in reserves as follows:			
General reserves (usable)	(165.1)	(150.5)	14.6
Other reserves (unusable)	(177.6)	(454.4)	(276.8)
Total reserves	(342.7)	(604.9)	(262.2)

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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. No new borrowing was undertaken in 2022/23.

Total borrowing at 31 March 2023, including short term loans, was £122.6 million (£129.4 million at 31 March 2022). Principal debt repayments of £6.9 million were made and interest of £5.0 million was paid on all council borrowing during 2022/23. Net borrowing (after offsetting investments) was £67.0 million as at 31 March 2023 compared with £49.7 million as at 31 March 2022.

Other Long Term Liabilities

The movement in long term liabilities results from a reduction in the pension liability valuation which is also reflected in the corresponding increase in unusable reserves.

Pension Fund Liability

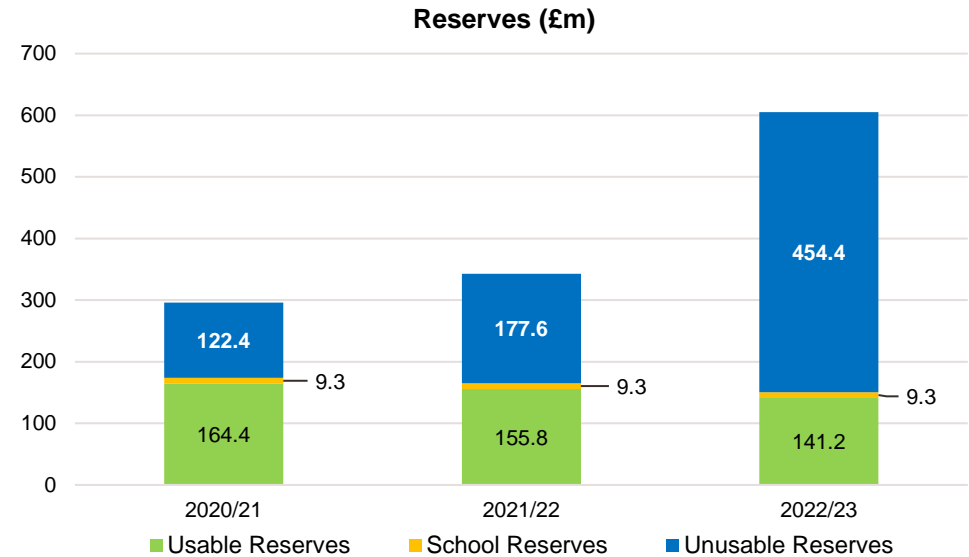
Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund. Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31 March 2023 is £24.7 million (£272.6 million at 31 March 2022) on an International Accounting 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 blue and reserves belonging to schools are shown in orange.



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.

159 The increase in unusable reserves is largely due to changes in the pension liability following the triennial actuarial valuation at 31 March 2022.

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 council has developed a 4 year Medium Term Financial Strategy (MTFS) for the period from 2023/24 to 2026/27 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 is working with the Department for Education and the appointed Commissioner for Children’s Services and resources have been allocated to address required transformation and improvement.

- Safeguarding the financial position of the council: Key pressures and high risk areas have been identified; robust and regular financial monitoring will enable prompt management action to mitigate the risks of overspends in 2023/24.
- Increasing demand for Adults and Children’s Social Care: The council’s Looked After Children (LAC) population is higher than our statistical neighbours and continues to require significant resources to support. Demand for Adult Services continues to increase as a result of the demographic shift in the county towards the older ages. The council has started a well-resourced transformation journey to respond to increasing demand for Adults and Children’s Social Care services.
- Volatility in government funding streams: The government settlement for 2023/24 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.
- 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. This expenditure is currently being managed within budget however the national trend reflects a growing pressure in this area.

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 2022/23, 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 83 to 90.

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 2023 and its income and expenditure for the year ended 31 March 2023.

Andrew Lovegrove, Director of Resources and Assurance and Section 151 Officer

XX/XX/2023

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 2022/23.

David Hitchiner, Chair of the Audit and Governance Committee

XX/XX/2023

Financial statements



Comprehensive income and expenditure statement

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

	2021/22 Gross expenditure £m	2021/22 Gross income £m	2021/22 Net expenditure £m		Note	2022/23 Gross expenditure £m	2022/23 Gross income £m	2022/23 Net expenditure £m
	158.4	(113.7)	44.7	Children and Young People		174.7	(117.5)	57.2
	113.5	(56.0)	57.5	Community Wellbeing		119.1	(51.9)	67.2
	59.7	(28.1)	31.6	Economy and Environment		95.8	(27.3)	68.5
	82.6	(39.1)	43.5	Corporate Services		89.4	(53.6)	35.8
	414.2	(236.9)	177.3	Net cost of services	8	479.0	(250.3)	228.7
	5.1	(0.5)	4.6	Other operating income and expenditure	10	8.6	-	8.6
	17.1	(6.6)	10.5	Financing and investment income and expenditure	11	15.1	(8.8)	6.3
	-	(200.2)	(200.2)	Taxation and non-specific grant income	12	-	(211.0)	(211.0)
	436.4	(444.2)	(7.8)	(Surplus)/deficit on the provision of services	9	502.7	(470.1)	32.6
			(15.7)	(Surplus)/deficit on revaluation of non-current assets				(28.3)
			(23.2)	Re-measurement of the net defined benefit liability				(266.5)
			(38.9)	Other comprehensive (income) and expenditure				(294.8)
			(46.7)	Total comprehensive (income) and expenditure				(262.2)

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).

The draft statement of accounts were authorised for issue by the Director of Resources and Assurance (Section 151 officer) on 31 May 2023.

31 March 2022 £m		Note	31 March 2023 £m
681.8	Property, plant and equipment	19	694.8
40.1	Investment property	20	41.9
0.3	Intangible assets		0.4
3.2	Heritage assets		3.9
38.9	Long term debtors	T2	37.3
764.3	Long term assets		778.3
43.0	Short term investments	T2	37.7
0.1	Inventories		0.3
36.0	Short term debtors	22	35.2
42.5	Cash and cash equivalents	23	25.5
121.6	Current assets		98.7

31 March 2022 £m		Note	31 March 2023 £m
(7.8)	Short term borrowing	T2	(4.0)
(73.4)	Short term creditors	24	(59.3)
(3.8)	Short term provisions		(5.1)
(2.3)	Cash and cash equivalents	23	(2.2)
(87.3)	Current liabilities		(70.6)
(3.5)	Long term provisions		(1.8)
(123.0)	Long term borrowing	T2	(119.9)
(11.7)	Capital grants receipts in advance	25	(15.7)
(317.7)	Other long term liabilities	T2	(64.1)
(455.9)	Total long term liabilities		(201.5)
342.7	Net assets		604.9
(165.1)	Usable reserves	29	(150.5)
(177.6)	Unusable reserves	30	(454.4)
(342.7)	Total reserves		(604.9)

Movement in reserves statement

The 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.

	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 2021	(9.1)	(105.6)	(114.7)	(44.6)	(14.3)	(173.6)	(122.4)	(296.0)
Total comprehensive income and expenditure	(7.8)	-	(7.8)	-	-	(7.8)	(38.9)	(46.7)
Adjustments between accounting basis and funding basis under regulations (note 28)	16.4	-	16.4	1.4	(1.5)	16.3	(16.3)	-
Transfers (to)/from earmarked reserves	(9.1)	9.1	-	-	-	-	-	-
(Increase)/decrease in year	(0.5)	9.1	8.6	1.4	(1.5)	8.5	(55.2)	(46.7)
Balance at 31 March 2022	(9.6)	(96.5)	(106.1)	(43.2)	(15.8)	(165.1)	(177.6)	(342.7)
Total comprehensive income and expenditure	32.6	-	32.6	-	-	32.6	(294.8)	(262.2)
Adjustments between accounting basis and funding basis under regulations (note 28)	(17.9)	-	(17.9)	3.1	(3.2)	(18.0)	18.0	-
Transfers (to)/from earmarked reserves	(14.7)	14.7	-	-	-	-	-	-
(Increase)/decrease in year	-	14.7	14.7	3.1	(3.2)	14.6	(276.8)	(262.2)
Balance at 31 March 2023	(9.6)	(81.8)	(91.4)	(40.1)	(19.0)	(150.5)	(454.4)	(604.9)
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.

2021/22 £m		Note	2022/23 £m
(7.8)	Net (surplus)/deficit on the provision of services		32.6
(39.0)	Adjust net (surplus)/deficit on the provision of services for non-cash movements		(52.9)
1.9	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities		26.4
(44.9)	Net cash flows from operating activities	32	6.1
25.5	Net cash flows from investing activities	33	(0.6)
0.4	Net cash flows from financing activities	34	11.4
(19.0)	Net (increase)/decrease in cash and cash equivalents		16.9
21.2	Cash and cash equivalents at 1 April		40.2
40.2	Cash and cash equivalents at 31 March	23	23.3
19.0	Net increase/(decrease) in cash and cash equivalents		(16.9)

Contents of the notes to the financial statements

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1. General accounting policies

1.1 General principles

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 2022/23, 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 have been prepared on a going concern basis, under the assumption that the council will continue in existence for the foreseeable future.

1.2 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.

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:

- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020

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

IFRS 16 Leases. This standard introduces new presentation and disclosure requirements in relation to arrangements that convey the right to use an asset. Following the outcome of the FRAB review, CIPFA LASAAC formally announced the decision to refer the mandatory implementation of IFRS 16 for local authorities until 1 April 2024. The impact of this change is expected to be immaterial in value.

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. Group accounts have been prepared to reflect the council's relationship with Hoople Ltd, a majority owned company. The council has assessed West Mercia Energy to be a non-material joint venture.

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 £222.7 million as at 31 March 2023 (£200.7 million as at 31 March 2022). Free schools and academy schools are not included on the balance sheet.

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 2023 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	<p>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.</p> <p>The value of the property, plant and equipment is dependent upon professional judgement based on information available at the time of valuation.</p>	<p>A variation of 5% in the value of land and buildings would be approximately £35 million from the closing net book value of £694.8 million.</p> <p>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.</p> <p>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.</p>
Property, plant and equipment depreciation	<p>Depreciation 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).</p> <p>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.</p> <p>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.</p>	<p>The effect on the depreciation charge of changes in the estimated useful live of assets can be measured:</p> <p>A reduction of one year in the assessed useful life would increase the depreciation charge by approximately £6 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 £694.8 million.</p>

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General notes to the financial statements

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions net liability valuation	<p>The net liability to pay pensions is calculated every three years with annual updates in the intervening years. A firm of consulting actuaries (Mercer) 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.</p>	<p>The effects on the net pension liability (£23.7 million at 31 March 2023) of changes in individual assumptions can be measured. For instance:</p> <ul style="list-style-type: none"> A 0.5% increase in the discount rate used would decrease the liability by £43.1 million. A 0.25% increase in the inflation rate used would increase the liability by £23.3 million. A 0.25% increase in the rate of pay growth used would increase the liability by £2.8 million. An increase of one year in assumed life expectancy used would increase the liability by £11.3 million. A 1.0% increase in investment returns would decrease the liability by £5.3 million. A 1.0% decrease in investment returns would increase the liability by £5.3 million.

5. Contingent liabilities

A contingent liability arises when an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence of uncertain future events not wholly within control of the council. Contingent liabilities are not recognised in the financial statements but disclosed as a note to the accounts. If it becomes probable that an outflow of future economic benefits or service potential will be required then a provision is recognised in the year in which the probability occurs.

There are no material contingent liabilities as at the balance sheet date.

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

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

7. Related party transactions

The council is required to disclose material transactions with bodies or individuals that have the potential to control or influence the council, or to be controlled or influenced by the council.

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 £0.7 million allowances and expenses were paid to members in 2022/23 (2021/22 £0.6 million). Elected members of the council may be involved with other local organisations that provide services for or receive services from the council. For 2022/23, 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 2022/23, 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 2022/23, the council spent £15.7 million (2021/22 £13.6 million) on services from the company, and received £1.0 million (2021/22 £0.5 million) in income from the company. This is reflected in the single entity comprehensive income and expenditure statement. There is a debtor of £0.2 million (2021/22 £0.3 million) and a creditor of £0.9 million (2021/22 £0.5 million) outstanding at 31 March 2023 and these balances are included in the single entity balance sheet.

The company's Board includes 1 Director who is employed by the council and 1 elected member of the council, these individuals did not receive any remuneration from the company during the year.

Section 75 Framework Partnership Agreements

The council has 4 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 £1.7 million to WME in 2022/23 (2021/22 £1.4 million) and received £0.2 million (2021/22 £nil); these transactions are reflected in the comprehensive income and expenditure statement. There is a creditor of £0.1 million (2021/22 £nil) and a debtor of £0.2 million (2021/22 £0.2 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. The council holds a 19% share in the company and this interest is accounted for as a long term investment in the single entity balance sheet; the remaining 81% shareholding is held by the University of Wolverhampton. This relationship is disclosed as a related party by virtue of the council's representation on the company's Board of Directors.

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.

174 Transactions invariably take place between the two parties. These transactions are deemed to be conducted on an independent and arms-length basis.

Notes supporting the comprehensive income and expenditure statement

8. Expenditure and funding analysis

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

	2022/23 Net expenditure for internal reporting £m	2022/23 Adjustments to arrive at Net expenditure chargeable to the general fund £m	2022/23 Net expenditure chargeable to the general fund £m	2022/23 Adjustments between accounting basis and funding basis under regulations £m	2022/23 Net expenditure in the CIES £m
175 Children and Young People	62.5	(1.3)	61.2	(4.0)	57.2
Community Wellbeing	67.2	(0.6)	66.6	0.6	67.2
Economy and Environment	27.6	16.5	44.1	24.4	68.5
Corporate Services	24.1	15.5	39.6	(3.8)	35.8
Net cost of services	181.4	30.1	211.5	17.2	228.7
Other income and expenditure	(175.9)	(20.9)	(196.8)	0.7	(196.1)
(Surplus)/deficit on the provision of services	5.5	9.2	14.7	17.9	32.6
Opening general fund balance at 1 April			(106.1)		
(Surplus)/deficit			14.7		
Closing general fund balance at 31 March			(91.4)		
Note		8.2		8.1	

Notes supporting the comprehensive income and expenditure statement

	2021/22 Net expenditure for internal reporting £m	2021/22 Adjustments to arrive at Net expenditure chargeable to the general fund £m	2021/22 Net expenditure chargeable to the general fund £m	2021/22 Adjustments between accounting basis and funding basis under regulations £m	2021/22 Net expenditure in the CIES £m
Children and Young People	43.8	2.0	45.8	(1.1)	44.7
Community Wellbeing	57.0	1.0	58.0	(0.5)	57.5
Economy and Environment	25.2	13.3	38.5	(6.9)	31.6
Corporate Services	34.4	10.8	45.2	(1.7)	43.5
Net cost of services	160.4	27.1	187.5	(10.2)	177.3
Other income and expenditure	(160.9)	(18.0)	(178.9)	(6.2)	(185.1)
(Surplus)/deficit on the provision of services	(0.5)	9.1	8.6	(16.4)	(7.8)
Opening general fund balance at 1 April			(114.7)		
(Surplus)/deficit			8.6		
Closing general fund balance at 31 March			(106.1)		
Note		8.2		8.1	

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

2021/22 Adjustments for capital purposes £m	2021/22 Adjustments for pensions purposes £m	2021/22 Adjustments for other purposes £m	2021/22 Total adjustments £m		2022/23 Adjustments for capital purposes £m	2022/23 Adjustments for pensions purposes £m	2022/23 Adjustments for other purposes £m	2022/23 Total adjustments £m
(1.9)	0.8	-	(1.1)	Children and Young People	(9.5)	4.8	0.7	(4.0)
(1.2)	0.7	-	(0.5)	Community Wellbeing	(1.4)	2.0	-	0.6
(7.4)	0.5	-	(6.9)	Economy and Environment	23.0	1.4	-	24.4
(7.8)	6.1	-	(1.7)	Corporate Services	(5.4)	1.6	-	(3.8)
(18.3)	8.1	-	(10.2)	Net cost of services	6.7	9.8	0.7	17.2
(0.2)	6.0	(12.0)	(6.2)	Other income and expenditure	2.6	7.6	(9.5)	0.7
(18.5)	14.1	(12.0)	(16.4)	(Surplus)/deficit on the provision of services	9.3	17.4	(8.8)	17.9

Adjustments for capital purposes include depreciation, revaluation losses, statutory provision for the repayment of debt, capital grant 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.

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

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2021/22 Capital adjustments not included in internal reporting £m	2021/22 Other adjustments not included in internal reporting £m	2021/22 Recharges included in internal reporting but removed for financial statements £m	2021/22 Reserve movement not included in internal reporting £m	2021/22 Total adjustments £m		2022/23 Capital adjustments not included in internal reporting £m	2022/23 Other adjustments not included in internal reporting £m	2022/23 Recharges included in internal reporting but removed for financial statements £m	2022/23 Reserve movement not included in internal reporting £m	2022/23 Total adjustments £m
0.9	(0.6)	1.7	-	2.0	Children and Young People	4.5	(5.8)	-	-	(1.3)
1.3	0.1	(0.4)	-	1.0	Community Wellbeing	2.4	(2.6)	(0.4)	-	(0.6)
15.5	(1.6)	(0.6)	-	13.3	Economy and Environment	21.9	(4.6)	(0.8)	-	16.5
1.8	(6.5)	3.3	12.2	10.8	Corporate Services	0.5	(3.5)	3.4	15.1	15.5
19.5	(8.6)	4.0	12.2	27.1	Net cost of services	29.3	(16.5)	2.2	15.1	30.1
(17.7)	(11.3)	(1.5)	12.5	(18.0)	Other income and expenditure	(24.7)	(1.0)	(3.9)	8.7	(20.9)
1.8	(19.9)	2.5	24.7	9.1	(Surplus)/deficit on the provision of services	4.6	(17.5)	(1.7)	23.8	9.2

Capital adjustments include a statutory provision for the repayment of debt, capital grant and other capital adjustments. Other adjustments include PFI adjustments, Covid grant allocations and adjustments above and below Net Cost of Services. Reserve movements include collection fund, revenue contribution to capital outlay and short term absences account.

9. Nature of income and expenditure

2021/22 £m		2022/23 £m
	Income	
(36.0)	Fees, charges and other service income	(48.6)
(4.1)	Trading and investment income	(4.3)
(2.5)	Interest and investment income	(4.4)
(149.6)	Income from council tax and non-domestic rates	(156.9)
(251.5)	Government grants and contributions	(255.9)
(0.5)	Profit on disposal of non-current assets	-
(444.2)	Total Income	(470.1)
	Expenditure	
138.2	Employee benefits expenses	154.5
253.3	Other service expenses	260.7
6.6	Support services recharges (net)	8.1
-	Loss on disposal of non-current assets	3.3
16.1	REFCUS, depreciation, amortisation and impairment	55.8
2.6	Trading and investment expenditure	0.4
14.5	Interest expense	14.6
5.1	Precepts and levies	5.3
436.4	Total expenditure	502.7
(7.8)	(Surplus)/deficit on the provision of services	32.6

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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. VAT receivable is excluded from income.

10. Other operating income and expenditure

2021/22 £m		2022/23 £m
4.9	Parish council precepts	5.1
0.2	Levies	0.2
(0.5)	(Gains)/losses on the disposal of non-current assets	3.3
4.6	Total other operating income and expenditure	8.6

11. Financing and investment income and expenditure

2021/22 £m		2022/23 £m
8.6	Interest payable and similar charges	7.0
5.9	Net interest of the defined net pension liability	7.6
(2.5)	Interest receivable	(4.4)
(1.5)	Income and expenditure of trading accounts and investment properties	(3.9)
10.5	Total financing and investment income and expenditure	6.3

12. Taxation and non-specific grant income

2021/22 £m		2022/23 £m
(121.2)	Council tax income	(126.1)
(28.4)	Non-domestic rates income	(30.8)
(33.5)	Non-ring fenced government grants	(29.1)
(17.1)	Capital grants and contributions	(25.0)
(200.2)	Total taxation and non-specific grant income	(211.0)

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

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

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13. Grant income

2021/22 £m		2022/23 £m
(0.6)	Revenue support grant	(0.7)
(32.9)	Other non-ring fenced grants	(28.4)
(121.2)	Council tax income	(126.1)
(28.4)	Non-domestic rates income	(30.8)
(17.1)	Capital grants	(25.0)
(200.2)	Total grants credited to taxation and non-specific grant income	(211.0)
(103.8)	Department for Education	(103.8)
(20.5)	Department for Levelling up, Housing and Communities	(25.3)
(32.1)	Department for Work and Pensions	(31.9)
(0.7)	Department for Transport	(0.8)
(0.6)	Department for Culture, Media and Sport	-
(0.1)	Department for Environment, Food and Rural affairs	(3.9)
(19.1)	Department for Health	(11.7)
(24.0)	Other grants and contributions	(24.4)
(200.9)	Total grants credited to services	(201.8)
(401.1)	Total grant income	(412.8)

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

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

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

Notes supporting the comprehensive income and expenditure statement

14. Dedicated schools grant

The council's expenditure on schools is funded by the dedicated schools grant (DSG) provided by the Department for Education. DSG is a ring-fenced grant and can only be applied to meet expenditure properly included in the schools budget, as defined in the School Finance and Early Years (England) Regulations 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.

2021/22 Total £m		2022/23 Central expenditure £m	2022/23 Individual schools budget £m	2022/23 Total £m
(143.1)	Final DSG allocation before academy and high needs recoupment	-	-	(150.5)
52.5	Less academy and high needs figure recouped	-	-	55.7
(90.6)	Total DSG after academy and high needs recoupment for the year	-	-	(94.8)
(0.7)	Brought forward from previous year	-	-	-
0.5	Less carry forward to following year agreed in advance	-	-	-
(90.8)	Agreed initial budgeted distribution for the year	(18.6)	(76.2)	(94.8)
-	In-year adjustments	-	0.2	0.2
-	Final budgeted distribution for the year	(18.6)	(76.0)	(94.6)
17.1	Less actual central expenditure	19.4	-	19.4
74.5	Less actual individual schools budget deployed to schools	-	76.0	76.0
0.8	In year carry forward to following year	0.8	-	0.8
(0.5)	Add carry forward agreed in advance	-	-	-
0.3	Carried forward to following year	-	-	0.8
-	DSG unusable deficit reserve at the end of the prior year	-	-	0.3
0.3	In year addition to the DSG unusable deficit reserve	-	-	0.8
0.3	Total DSG unusable deficit reserve at the end of the year	-	-	1.1

Notes supporting the comprehensive income and expenditure statement

15. Pooled budgets

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

2021/22 Pooled income £m	2021/22 Pooled expenditure £m	2021/22 Net pooled expenditure £m	2021/22 HC managed £m	2021/22 ICB managed £m		2022/23 Pooled income £m	2022/23 Pooled expenditure £m	2022/23 Net pooled expenditure £m	2022/23 HC managed £m	2022/23 ICB managed £m
(23.2)	20.9	(2.3)	12.8	8.1	Consolidated better care fund	(24.2)	24.9	0.7	16.3	8.6
(5.5)	5.7	0.2	4.8	0.9	Consolidated Children's Services	(5.6)	5.9	0.3	5.0	0.9
(1.6)	1.6	-	0.7	0.9	Integrated community equipment store	(1.9)	1.7	(0.2)	0.7	1.0
(2.6)	2.6	-	2.6	-	Hospital discharge fund	(1.3)	1.3	-	0.7	0.6
(32.9)	30.8	(2.1)	20.9	9.9	Total	(33.0)	33.8	0.8	22.7	11.1

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The council has 4 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. The hospital discharge fund aims to enhance capacity for discharge from hospitals.

Notes supporting the comprehensive income and expenditure statement

16. Officers remuneration

16.1. Officers remuneration over £50,000 per annum

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

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

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2021/22 Number of school staff	2021/22 Number of non-school staff	2021/22 Total number	Salary banding	2022/23 Number of school staff	2022/23 Number of non-school staff	2022/23 Total number
33	34	67	£50,000 to £55,000	56	54	110
21	11	32	£55,001 to £60,000	17	19	36
13	15	28	£60,001 to £65,000	16	18	34
14	11	25	£65,001 to £70,000	10	6	16
4	3	7	£70,001 to £75,000	7	1	8
5	1	6	£75,001 to £80,000	4	3	7
1	5	6	£80,001 to £85,000	3	5	8
-	3	3	£85,001 to £90,000	1	3	4
1	-	1	£90,001 to £95,000	-	2	2
1	3	4	£95,001 to £100,000	1	1	2
1	-	1	£100,001 to £105,000	1	1	2
-	-	-	£105,001 to £110,000	1	1	2
-	1	1	£110,001 to £115,000	-	1	1
-	1	1	£120,001 to £125,000	-	-	-
1	-	1	£130,001 to £135,000	-	2	2
-	2	2	£140,001 to £145,000	-	-	-
-	-	-	£155,001 to £160,000	-	1	1
95	90	185	Total number of employees over £50,000	117	118	235

16.2. Senior employees' remuneration

2022/23	Note	Salary, fees and allowances £000	Compensation for loss of office/benefits in kind £000	Pension contributions £000	Total £000
Chief Executive (Paul Walker)	1	159	-	-	159
Director of Resources and Assurance/Section 151 Officer	2	110	-	19	129
Director of Governance and Law/Monitoring Officer	2, 8	63	-	-	63
Corporate Director, Children and Young People	3	135	-	24	159
Corporate Director, Community Wellbeing (interim)	4	17	-	3	20
Corporate Director, Community Wellbeing	4	105	-	19	124
Corporate Director, Economy and Environment	5	135	-	24	159
Director of Public Health	6	99	-	17	116
Director of HR and OD		92	-	16	108
Total		915	-	122	1,037

Notes supporting the comprehensive income and expenditure statement

2021/22	Note	Salary, fees and allowances £000	Compensation for loss of office/benefits in kind £000	Pension contributions £000	Total £000
Chief Executive (Paul Walker)	1	143	-	-	143
Director of Resources and Assurance/Section 151 Officer	2	111	-	20	131
Solicitor to the Council/Monitoring Officer	2, 8	98	-	23	121
Director for Children and Families	3	22	33	2	57
Corporate Director, Children and Young People	3	33	-	6	39
Director for Adults and Communities	4	52	-	6	58
Corporate Director, Community Wellbeing	4	99	-	17	116
Director of Economy and Place	5	22	90	8	120
Corporate Director, Economy and Environment	5	17	-	3	20
Director of Public Health	6	5	-	1	6
Acting Director of Public Health	7	89	-	16	105
Director of HR and OD		89	-	16	105
Total		780	123	118	1,021

Notes:

1. The Chief Executive retired on 11 February 2021. A new Chief Executive commenced in post on 4 May 2021.
2. In addition to their substantive roles, the Director of Resources and Assurance/Section 151 Officer and the Solicitor to the Council/Monitoring Officer became Acting Deputy Chief Executives for the duration between the Chief Executive leaving (February 2021) and the new Chief Executive commencing in post (May 2021).
3. The Director for Children and Families left on 30 April 2021. The post was filled by temporary contract during the period to 31 December 2021. The post title became Corporate Director, Children and Young People from 1 January 2022.
4. The Director for Adults and Communities left on 4 July 2021. The post was filled by temporary contract during the period to June 2022 when the permanent appointee started. The post title became Corporate Director, Community Wellbeing.
5. The Director for Economy and Place left on 31 July 2021. The post was filled by temporary contract to 13 February 2022. The post titled became Corporate Director, Economy and Environment with a new director commencing in post 14 February 2022.
6. The new Director of Public Health commenced in post in March 2022.
7. An Acting Director for Public Health was appointed effective from 25 November 2020 until March 2022.
8. The Solicitor to the Council/Monitoring Officer left in March 2022. The post has was filled by temporary contract during the period to 4 September 2022. The post title became Director of Governance and Law

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. The table does not include actuarial strain paid to the pension fund, which was £0.1 million (£0.1 million in 2021/22).

2021/22 Number of compulsory redundancies	2021/22 Number of other agreed departures	2021/22 Total number of exit packages	2021/22 Total cost of exit packages £000	Exit package cost banding	2022/23 Number of compulsory redundancies	2022/23 Number of other agreed departures	2022/23 Total number of exit packages	2022/23 Total cost of exit packages £000
1	26	27	257	£0 to £20,000	2	12	14	103
-	4	4	104	£20,001 to £40,000	-	5	5	137
-	1	1	44	£40,001 to £60,000	-	-	-	-
-	-	-	-	£60,001 to £80,000	-	-	-	-
-	1	1	90	£80,001 to £100,000	-	-	-	-
1	32	33	495	Total	2	17	19	240

18. External audit costs

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

	2021/22 £000		2022/23 £000
		Fees relating to the current year	
	102	Fees incurred for external audit services	102
	78	Expected additional fees for external audit services	119
	19	Fees incurred for certification work undertaken by external auditor	19
	199	Total current year fees	240
		Fees relating to prior years'	
	-	Fees incurred for external audit services	25
	20	Additional fees incurred for external audit services	128
	-	Fees incurred for certification work undertaken by external auditor	38
	20	Total prior years' fees	191
	219	Total external audit fees	431

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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

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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 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 2023 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

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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 2023	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	361.4	36.9	1.6	4.5	-	404.4	39.9
Additions	7.6	1.1	-	0.2	0.8	9.7	0.2
Disposals	(3.8)	-	-	(0.6)	-	(4.4)	-
Revaluation	36.1	2.2	-	(1.5)	-	36.8	2.2
Reverse accumulated depreciation	(7.4)	(1.0)	-	-	-	(8.4)	(1.0)
Asset transfers	(1.3)	-	-	1.3	-	-	-
Closing balance at 31 March	392.6	39.2	1.6	3.9	0.8	438.1	41.3
Depreciation							
Opening balance at 1 April	(2.5)	(3.5)	-	-	-	(6.0)	(0.2)
Charge for the year	(5.5)	(1.9)	-	-	-	(7.4)	(1.3)
Reverse accumulated depreciation	7.4	1.0	-	-	-	8.4	1.0
Closing balance at 31 March	(0.6)	(4.4)	-	-	-	(5.0)	(0.5)
Closing net book value at 31 March	392.0	34.8	1.6	3.9	0.8	433.1	40.8
Opening net book value at 1 April	358.9	33.4	1.6	4.5	-	398.4	39.7

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 (eg 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 have been reviewed during 2022/23 and are assessed in the table below. The review of this accounting estimate has increased the charge to the comprehensive income and expenditure statement for depreciation relating to infrastructure assets by £36.1 million for 2022/23.

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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 2023	£m
Infrastructure assets opening net book value at 1 April	283.4
Additions	24.2
Depreciation charge for the year	(45.9)
Infrastructure assets closing net book value at 31 March	261.7
Net book value of PPE excluding infrastructure assets	433.1
Total net book value of PPE on the balance sheet at 31 March	694.8

Notes supporting the balance sheet

At 31 March 2022	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	343.4	35.6	1.6	4.0	-	384.6	36.5
Additions	3.3	0.9	-	0.2	-	4.4	0.4
Disposals	(0.5)	-	-	-	-	(0.5)	-
Revaluation	19.0	3.7	-	0.4	-	23.1	4.2
Reverse accumulated depreciation	(3.3)	(0.9)	-	-	-	(4.2)	(1.2)
Asset transfers	(0.5)	-	-	(0.1)	-	(0.6)	-
Other movements	-	(2.4)	-	-	-	(2.4)	-
Closing balance at 31 March	361.4	36.9	1.6	4.5	-	404.4	39.9
Depreciation							
Opening balance at 1 April	(0.4)	(4.9)	-	-	-	(5.3)	(0.2)
Charge for the year	(5.4)	(2.0)	-	-	-	(7.4)	(1.2)
Reverse accumulated depreciation	3.3	0.9	-	-	-	4.2	1.2
Other movements	-	2.5	-	-	-	2.5	-
Closing balance at 31 March	(2.5)	(3.5)	-	-	-	(6.0)	(0.2)
Closing net book value at 31 March	358.9	33.4	1.6	4.5	-	398.4	39.7
Opening net book value at 1 April	343.0	30.7	1.6	4.0	-	379.3	36.3

At 31 March 2022	£m
Infrastructure assets opening net book value at 1 April	269.3
Additions	23.4
Depreciation charge for the year	(9.3)
Infrastructure assets closing net book value at 31 March	283.4
Net book value of PPE excluding infrastructure assets	398.4
Total net book value of PPE on the balance sheet at 31 March	681.8

19.2 Revaluations

The carrying amount of assets on the rolling programme held at 31 March 2023 total £467.2 million. The effective date of the revaluations are as follows:

Valued as at	Carrying amount of revalued assets £m
31 March 2023	408.9
31 March 2022	58.3
Total	467.2

19.3 Revaluation reserve

31 March 2022 £m		31 March 2023 £m
(133.7)	Balance at 1 April	(147.9)
(18.9)	Revaluations upwards	(32.3)
3.3	Revaluations downwards	4.1
0.5	Depreciation of revaluations	0.5
-	Disposal of revaluations	2.3
0.9	Asset transfers	-
(147.9)	Balance at 31 March	(173.3)

19.4 Capital commitments

At 31 March 2023 the council had no significant capital commitments (31 March 2022 £nil). The council's policy is that significant contracts are those with a value greater than £1 million.

19.5 School assets

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

In respect of any property, plant and equipment associated with schools, the council has determined that community schools, voluntary aided and voluntary controlled schools are included in the balance sheet. Voluntary aided schools' long term assets are owned by the school trustees however 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 Analysis of capital charges to directorates

Capital charges included in the comprehensive income and expenditure statement relating to tangible property, plant and equipment are analysed by directorate below.

	Depreciation £m	Revaluations £m	Total £m
Children and Young People	3.7	(8.7)	(5.0)
Community Wellbeing	0.3	0.6	0.9
Economy and Environment	47.1	(2.3)	44.8
Corporate Services	2.3	1.8	4.1
Total	53.4	(8.6)	44.8

19.7 Capital adjustment account

31 March 2022 £m		31 March 2023 £m
(288.5)	Balance at 1 April	(308.5)
	Capital financing:	
(4.8)	Capital receipts	(6.2)
(15.7)	Capital grants and contributions	(21.9)
(0.3)	Revenue contributions to capital expenditure	(0.6)
(20.8)	Total capital financing	(28.7)
(6.9)	Downward revaluations charged to comprehensive income and expenditure statement	(10.3)
16.8	Depreciation charged to comprehensive income and expenditure statement	53.4
(10.7)	Minimum revenue provision	(12.6)
0.3	Revenue expenditure funded from capital under statute	1.2
1.4	Disposal of non-current assets	2.3
(0.2)	PFI adjustments	(1.1)
0.1	Other adjustments	1.0
(308.5)	Balance at 31 March	(303.3)

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 2022 Investment property £m		31 March 2023 Investment property £m
	Cost or valuation	
38.7	Opening balance at 1 April	40.1
2.4	Additions	0.4
(1.0)	Disposals	(0.4)
(0.6)	Revaluation	1.8
0.6	Asset transfers	-
40.1	Closing balance at 31 March	41.9

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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 revaluation 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 23	41.9
Investment properties at 31 March 22	40.1

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.

2021/22 £m		2022/23 £m
313.6	Opening capital financing requirement	308.4
	Capital investment	
27.4	Property, plant and equipment	34.4
0.2	Intangible assets	0.1
2.5	Investment properties	0.4
6.9	Revenue expenditure funded from capital under statute	10.9
0.3	Assets acquired under PFI contracts	0.2
0.6	Long term debtors (including loans and PFI prepayments)	0.6
	Sources of finance	
(3.3)	Capital receipts	(4.6)
(6.8)	Loan fund principal	(1.6)
(22.3)	Government grants and other contributions	(31.6)
	Sums set aside from revenue	
-	Direct revenue contributions	(0.2)
(10.7)	Minimum revenue provision	(12.6)
308.4	Closing capital financing requirement	304.4
	Explanation of movements in year	
12.0	Increase in underlying need to borrow	10.0
0.3	Assets acquired under PFI contracts	0.2
(6.8)	Repayment of long term debtors	(1.6)
(10.7)	Minimum revenue provision	(12.6)
(5.2)	Adjusted to services	(4.0)

Minimum Revenue Provision (MRP)

Minimum Revenue Provision (MRP) is a charge to the general fund and is shown in the financing and investment income and expenditure on the comprehensive income and expenditure statement, 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 2%
- MRP on unsupported borrowing incurred before 1 April 2008 will be written down on a straight line basis over the asset life
- MRP on unsupported borrowing from 1 April 2008 onwards is written down on an annuity basis with an annuity rate of 3%
- MRP on assets acquired through finance 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 2022 £m		31 March 2023 £m
200	11.4	Trade receivables	11.0
	1.8	Prepayments	2.1
	2.2	Non-domestic rates	2.0
	7.0	Council Tax	8.6
	3.7	VAT	4.1
	9.9	Other receivables	7.4
	36.0	Total	35.2

Other receivables includes capital debtors, housing benefit debtors and impairment for bad debts provision (Note T2.5).

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 2022 £m		31 March 2023 £m
5.8	Cash held by the council	7.3
36.7	Short term deposits	18.2
42.5	Total	25.5
(2.3)	Bank current accounts	(2.2)
40.2	Total	23.3

24. Short term creditors

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31 March 2022 £m		31 March 2023 £m
(6.3)	Trade payables	(5.0)
(19.4)	Receipts in advance	(14.5)
(2.9)	Employee leave accrual	(3.2)
(1.7)	Council Tax	(2.1)
(2.4)	Non-domestic rates	(7.5)
(40.7)	Other payables	(27.0)
(73.4)	Total	(59.3)

Other payables includes capital creditors, grants creditors and payroll holding codes.

25. Capital grants receipts in advance

31 March 2022 £m		31 March 2023 £m
(2.6)	Central government bodies	(2.2)
(9.1)	Other grants and contributions	(13.5)
(11.7)	Total	(15.7)

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 five 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
- Contingent rent – differences in the amount to be paid for the property arising during the contract, debited or credited to interest payable and similar charges in the comprehensive income and expenditure statement
- 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

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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.

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 were £4.5 million in 2022/23 (£4.1 million in 2021/22).

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:

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31 March 2022 Total £m		31 March 2023 Shaw Healthcare £m	31 March 2023 Whitecross school £m	31 March 2023 Waste disposal £m	31 March 2023 Total £m
(47.5)	Balance outstanding at 31 March	(6.1)	(10.0)	(28.4)	(44.5)
3.0	Payments during the year	0.4	0.8	3.3	4.5
(44.5)	Balance outstanding at 1 April	(5.7)	(9.2)	(25.1)	(40.0)

26.2. PFI payments

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

	Service charges £m	Lifecycle costs £m	Finance liability £m	Interest £m	Total £m
Within 1 year	5.0	0.5	1.8	2.1	9.4
Within 2 to 5 years	22.7	1.9	10.4	9.9	44.9
Within 6 to 10 years	26.8	2.2	24.5	6.8	60.3
Within 11 to 15 years	5.5	0.1	0.9	1.4	7.9
Balance outstanding at 1 April	60.0	4.7	37.6	20.2	122.5

27. Leases

Leases are classified as either finance leases or operating leases based on the extent to which risks and rewards of ownership of a leased asset lie with the lessor or the lessee. The council does not hold any finance leases.

27.1 Operating leases – the council as a lessee

Where the council is lessee – an operating lease is recognised as an expense on a straight line basis over the lease term.

31 March 2022 £m		31 March 2023 £m
0.4	In the year	0.5
0.3	Not later than 1 year	0.4
1.0	Between 1 and 5 years	1.1
1.3	Over 5 years	1.2
3.0	Total due in future years	3.2

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27.2 Operating leases – the council as a lessor

Where the council is lessor – the asset is recognised under the relevant category of assets. Costs, including depreciation, are recognised as an expense and income is recognised in the comprehensive income and expenditure statement on a straight-line basis over the lease term.

31 March 2022 £m		31 March 2023 £m
(2.7)	Not later than 1 year	(3.5)
(8.2)	Between 1 and 5 years	(9.5)
(22.8)	Over 5 years	(22.0)
(33.7)	Total due in future years	(35.0)

28. Adjustments between accounting basis and funding basis under regulations

2022/23	General fund £m	Earmarked reserves £m	Capital receipts reserve £m	Capital grants unapplied £m	Movement in unusable reserves £m
Depreciation of non-current assets	(53.4)	-	-	-	53.4
Impairment and revaluation losses of non-current assets	10.3	-	-	-	(10.3)
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	8.6	-	-	-	(8.6)
Statutory provision for the repayment of debt (MRP)	12.6	-	-	-	(12.6)
Amount by which pension costs calculated in accordance with IAS 19 are different from the contributions due under the pension scheme regulations	(17.4)	-	-	-	17.4
Capital grants and contributions credited to the comprehensive income and expenditure statement not applied to capital financing	11.7	-	-	(11.7)	-
Capital grants and contributions applied to capital financing	13.3	-	-	8.5	(21.8)
Other individual non material adjustments	(3.6)	-	3.1	-	0.5
Total adjustments between accounting basis and funding basis under regulations	(17.9)	-	3.1	(3.2)	18.0

Notes supporting the movement in reserves statement

2021/22	General fund £m	Earmarked reserves £m	Capital receipts reserve £m	Capital grants unapplied £m	Movement in unusable reserves £m
Depreciation of non-current assets	(16.8)	-	-	-	16.8
Impairment and revaluation losses of non-current assets	6.9	-	-	-	(6.9)
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	11.7	-	-	-	(11.7)
Statutory provision for the repayment of debt (MRP)	10.7	-	-	-	(10.7)
Amount by which pension costs calculated in accordance with IAS 19 are different from the contributions due under the pension scheme regulations	(14.1)	-	-	-	14.1
Capital grants and contributions credited to the comprehensive income and expenditure statement not applied to capital financing	7.9	-	-	(7.9)	-
Capital grants and contributions applied to capital financing	9.2	-	-	6.4	(15.6)
Other individual non material adjustments	0.9	-	1.4	-	(2.3)
Total adjustments between accounting basis and funding basis under regulations	16.4	-	1.4	(1.5)	(16.3)

Notes supporting the movement in reserves statement

29. Movement in usable reserves

Usable reserve	Purpose of reserve	1 April 2022 £m	Transfers out £m	Transfers in £m	31 March 2023 £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 (see note 31)	(96.5)	40.3	(25.6)	(81.8)
Capital receipts reserve	Capital receipts available to meet future capital expenditure	(43.2)	6.2	(3.1)	(40.1)
Capital grants unapplied	Capital grants available to meet future capital expenditure	(15.8)	8.5	(11.7)	(19.0)
Total		(165.1)	55.0	(40.4)	(150.5)

30. Movement in unusable reserves

Unusable reserve	Purpose of reserve	1 April 2022 £m	Transfers out £m	Transfers in £m	31 March 2023 £m
Short term absences account	Balances relating to accumulated holiday due but not taken in year	2.9	(2.9)	3.3	3.3
Capital adjustment account	Timing differences on capital financing and consumption	(308.5)	33.9	(28.7)	(303.3)
Collection fund adjustment account	Differences in accounting treatment for council tax and business rates between IFRS and statutory arrangements	1.9	(21.1)	12.5	(6.7)
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	273.3	(282.4)	33.2	24.1
Revaluation reserve	Unrealised gains and losses arising from revaluations of long term assets	(147.9)	6.9	(32.3)	(173.3)
DSG adjustment account	Accumulated deficit on the dedicated schools grant	0.3	-	0.8	1.1
Total		(177.6)	(265.6)	(11.2)	(454.4)

31. Movement in earmarked reserves

Earmarked reserve	Purpose of reserve	1 April 2022 £m	Transfers out £m	Transfers in £m	31 March 2023 £m
Financial resilience reserve	Amounts set aside to support financial risk	(17.4)	17.4	(1.2)	(1.2)
Business rates reserve	To smooth the impact of changes in business rates retention, collection and funding	(11.0)	-	(2.1)	(13.1)
Schools' balances	Balances held for individual maintained schools	(9.3)	1.2	(1.2)	(9.3)
Waste reserve	To support increased future costs on waste disposal and collection services	(7.9)	0.8	(2.3)	(9.4)
Unused grants carried forward	Unspent grant monies earmarked for future expenditure	(23.1)	14.5	(9.0)	(17.6)
Other individually non material reserves		(27.8)	6.4	(9.8)	(31.2)
Total		(96.5)	40.3	(25.6)	(81.8)

32. Cash flows from operating activities

32.1 Adjustments for non-cash movements

2021/22 £m		2022/23 £m
(17.6)	Movement in debtors	(2.4)
3.2	Movement in creditors	14.1
-	Movement in inventories	0.2
(9.9)	Depreciation, amortisation and impairment of non-current assets	(43.1)
(1.5)	Carrying amount of non-current assets sold	(4.7)
(14.1)	Net charges for retirement benefits	(17.4)
0.8	Movement in provisions	0.4
(39.0)	Total adjustment for non-cash movements	(52.9)

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

2021/22 £m		2022/23 £m
1.9	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1.4
-	Any other items for which the cash effects are investing or financing cash flows	25.0
1.9	Total adjustment for investing and financing activities	26.4

33. Cash flows from investing activities

2021/22 £m		2022/23 £m
30.4	Purchase of property, plant and equipment, investment property and intangible assets	34.3
(1.9)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(4.1)
(3.0)	Other receipts from investing activities	(33.1)
-	Other payments for investing activities	2.3
25.5	Total cash flows from investing activities	(0.6)

Other receipts from investing activities includes receipts of capital grants, receipts from long term loans and proceeds from sale of short term investments.

34. Cash flows from financing activities

2021/22 £m		2022/23 £m
(5.0)	Cash receipts of short term and long term borrowing	-
3.0	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	4.5
2.4	Repayments of short and long term borrowing	6.9
0.4	Total cash flows from financing activities	11.4

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

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' scheme however mean that the liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to the Teachers' Pensions Scheme in the year. Staff transferred with an NHS pension are accounted for as members of an unfunded defined benefit scheme. Therefore, it would be extremely unlikely that local authorities would be able to identify the underlying scheme assets and liabilities for transferred staff.

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 of 4.8% (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 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 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 liability
- Remeasurement of the net defined benefit liability: Changes in the net pensions 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 2022/23 the council paid employer contributions of £7.4 million (2021/22 £7.2 million) in respect of teachers' pension costs. The liability to former Hereford and Worcester teachers' unfunded added years' benefits of £0.48 million is included in the pension fund liability in the balance sheet in 2022/23 (£0.62 million in 2021/22).

T1.2. Defined benefit pension schemes

Employees are eligible to join the Local Government Pension Scheme 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

2021/22 £m		2022/23 £m
	Comprehensive income and expenditure statement	
	Cost of services	
22.5	Current service cost	25.5
0.1	(Gain)/loss from settlements and curtailments	-
-	Past service cost	0.1
	Financing and investment income and expenditure	
5.7	Net interest expense	7.4
0.2	Administration expenses	0.2
28.5	Total post-employment benefit charged to the surplus/deficit on the provision of services	33.2
	Other comprehensive income and expenditure	
2.1	Remeasurement arising on changes in experience	82.9
(0.3)	Remeasurement arising on changes in financial assumptions	(315.7)
(5.8)	Remeasurement arising on changes in demographic assumptions	(12.5)
(19.1)	Return on plan assets	(21.3)
(23.1)	Total post-employment benefit charged to other comprehensive income and expenditure	(266.6)
	Movement in reserves statement	
(28.5)	Reversal of net charges made to the surplus/deficit on the provision of services	(33.2)
14.4	Amount charged to the general fund balance for employer's contribution payable in the year	15.6

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

31 March 2022 £m		31 March 2023 £m
769.1	Present value of the defined benefit obligation	555.9
(496.5)	Fair value of plan assets	(532.2)
272.6	Net liability arising from defined benefit obligation	23.7

T1.5. Reconciliation of the present value of scheme liabilities

31 March 2022 £m		31 March 2023 £m
748.7	Opening balance at 31 March	769.1
22.4	Current service cost	25.5
-	Past service cost	0.1
15.6	Interest cost	21.4
3.6	Contribution by scheme participants	4.0
(4.0)	Remeasurement arising from changes in assumptions	(245.3)
0.1	(Gain)/loss on curtailments	-
(17.3)	Benefits/transfers paid	(18.9)
769.1	Closing balance at 1 April	555.9

T1.6. Reconciliation of the fair value of scheme assets

31 March 2022 £m		31 March 2023 £m
467.0	Opening balance at 31 March	496.5
9.9	Interest income	13.9
19.1	Return on plan assets	21.3
(0.2)	Administration expenses	(0.2)
14.4	Contribution from employer	15.6
3.6	Contributions from employees	4.0
(17.3)	Benefits/transfers paid	(18.9)
496.5	Closing balance at 1 April	532.2

The actual return on scheme assets in the year was £4.8 million, 0.9% of the period end assets (2021/22 £29.0 million, 5.8%).

T1.7. Local government pension scheme assets

31 March 2022 £m		Quoted Y/N	31 March 2023 £m
	Cash		
-	Cash instruments	N	0.4
-	Cash accounts	N	3.6
-	Net current assets	N	3.8
	Equity instruments		
0.6	UK quoted	Y	0.6
121.5	Overseas quoted	Y	118.9
68.4	Pooled investment vehicle – UK managed funds	N	66.9
198.4	Pooled investment vehicle – UK managed funds (overseas equities)	N	194.2
4.0	Pooled investment vehicle – overseas managed funds	N	3.9
	Property		
3.5	UK property debt	N	5.7
2.3	Overseas property debt	N	3.8
21.9	UK property funds	N	36.2
	Alternatives		
23.4	UK infrastructure	N	30.9
15.6	European infrastructure	N	20.6
13.0	US infrastructure	N	17.2
2.1	UK stock options	N	2.8
(1.0)	Overseas stock options	N	(1.4)
7.8	Corporate private debt	N	10.3
	Bonds		
7.0	LGPS central global pooled funds	Y	6.4
8.0	UK government fixed	Y	7.4
496.5	Closing fair value of scheme assets		532.2

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 Mercer Limited, 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 2022		31 March 2023
	Mortality assumptions	
	Longevity at 65 for current pensioners (in years)	
22.6	Men	22.0
25.0	Women	24.2
	Longevity at 65 for future pensioners (in years)	
24.1	Men	23.3
27.0	Women	26.1
	Financial assumptions	
3.4%	Rate of CPI inflation	2.7%
4.9%	Rate of increase in salaries	4.2%
3.5%	Rate of increase in pensions	2.8%
2.8%	Rate for discounting scheme liabilities	4.8%

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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 2024 is £12.4 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. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. The LGPS deficit includes a provision for the assessed financial impact of the case law decision in respect of the protections for members nearing retirement being deemed to have given rise to an unlawful age discrimination to younger workers without those protections (McCloud).

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31 March 2022 £m		31 March 2023 £m
282.4	Balance at 1 April	273.3
(23.2)	Return on plan assets	(266.7)
28.5	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	33.2
(14.4)	Employer's pension contributions and direct payments to pensioners payable in the year	(15.7)
273.3	Balance at 31 March	24.1
272.6	Local government pension scheme	23.7
0.7	Teachers pension scheme	0.4
273.3	Balance at 31 March	24.1

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.

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2021/22 Financial liabilities at amortised cost £m	2021/22 Financial assets: loans and receivables £m	2021/22 Total £m		2022/23 Financial liabilities at amortised cost £m	2022/23 Financial assets: loans and receivables £m	2022/23 Total £m
			Interest payable and similar charges			
5.4	-	5.4	On loans	5.0	-	5.0
3.2	-	3.2	On PFI liabilities	2.0	-	2.0
8.6	-	8.6	Total expenditure in surplus/deficit on the provision of services	7.0	-	7.0
			Interest receivable			
-	(2.6)	(2.6)	On loans	-	(4.4)	(4.4)
-	(2.6)	(2.6)	Total income in surplus/deficit on the provision of services	-	(4.4)	(4.4)
8.6	(2.6)	6.0	Net (gain)/loss for the year	7.0	(4.4)	2.6

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 2022 Per balance sheet £m	31 March 2022 Financial instruments £m		31 March 2023 Per balance sheet £m	31 March 2023 Financial instruments £m
36.5	36.5	Long term debtors – loans	34.6	34.6
2.4	-	Long term debtors – PFI lifecycle costs	2.7	-
38.9	36.5	Total long term debtors	37.3	34.6
43.0	43.0	Short term investments	37.7	37.7
43.0	43.0	Total short term investments	37.7	37.7
42.5	42.5	Cash and cash equivalents	25.5	25.5
42.5	42.5	Total cash and cash equivalents	25.5	25.5
32.4	32.4	Short term debtors – Sales invoices and contractual rights	29.4	29.4
12.8	-	Short term debtors – Statutory debts (council tax, vat)	14.7	-
1.8	-	Short term debtors – prepayments	2.0	-
(11.0)	-	Short term debtors – bad debt provisions	(10.9)	-
36.0	32.4	Total short term debtors	35.2	29.4
160.4	154.4	Total assets	135.7	127.2

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 2022 Per balance sheet £m	31 March 2022 Financial instruments £m		31 March 2023 Per balance sheet £m	31 March 2023 Financial instruments £m
(2.3)	(2.3)	Cash and cash equivalents	(2.2)	(2.2)
(2.3)	(2.3)	Total cash and cash equivalents	(2.2)	(2.2)
(0.1)	(0.1)	Short term borrowing – bank loans	(0.1)	(0.1)
(7.7)	(7.7)	Short term borrowing – public works loan board	(3.9)	(3.9)
(7.8)	(7.8)	Total short term borrowing	(4.0)	(4.0)
(36.6)	(36.6)	Short term creditors – invoiced amounts and other contractual liabilities	(25.3)	(25.3)
(7.5)	-	Short term creditors – statutory liabilities (PAYE)	(10.5)	-
(28.5)	(2.9)	Short term creditors – accruals and receipts in advance	(22.6)	(3.2)
(0.8)	-	Short term creditors – funds and deposits held	(0.9)	-
(73.4)	(39.5)	Total short term creditors	(59.3)	(28.5)
(12.4)	(12.4)	Long term borrowing – bank loans	(12.4)	(12.4)
(110.6)	(110.6)	Long term borrowing – public works loan board	(107.5)	(107.5)
(123.0)	(123.0)	Total long term borrowing	(119.9)	(119.9)
(44.5)	(44.5)	Other long term liabilities – PFI and finance leases	(40.0)	(40.0)
(273.2)	-	Other long term liabilities – pensions liability	(24.1)	-
(317.7)	(44.5)	Total other long term liabilities	(64.1)	(40.0)
(524.2)	(217.1)	Total liabilities	(249.5)	(194.6)

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 higher than the carrying amount using premature repayment 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 relatively low rates prevailing at the balance sheet date. Therefore the fair value includes a premium that the council would have to pay if the lender agreed to early repayment of the loans.

22 The carrying amounts of other long term financial assets and liabilities in the balance sheet include commitments falling due under PFI schemes. The fair value of these commitments exceeds the carrying amount and represents the additional cost that could fall due if we were to terminate the PFI schemes as at the balance sheet date.

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 2022 Carrying amount £m	31 March 2022 Fair value (premature repayment rate) £m	31 March 2022 Fair value (new loan rate) £m		Fair value hierarchy input level	31 March 2023 Carrying amount £m	31 March 2023 Fair value (premature repayment rate) £m	31 March 2023 Fair value (new loan rate) £m
			Financial assets				
36.5	36.5	36.5	Long term debtors	2	34.6	34.6	34.6
43.0	43.0	43.0	Short term investments	n/a	37.7	37.7	37.7
42.5	42.5	42.5	Cash and cash equivalents	n/a	25.5	25.5	25.5
32.4	32.4	32.4	Short term debtors	n/a	29.4	29.4	29.4
154.4	154.4	154.4	Total financial assets		127.2	127.2	127.2
			Financial liabilities				
(118.3)	(156.8)	(139.0)	Public works loan board	2	(111.4)	(114.8)	(104.1)
(12.5)	(20.7)	(17.3)	Bank loans (LOBOs)	2	(12.5)	(13.8)	(11.6)
(2.3)	(2.3)	(2.3)	Cash and cash equivalents	n/a	(2.2)	(2.2)	(2.2)
(39.5)	(39.5)	(39.5)	Short term creditors	n/a	(28.5)	(28.5)	(28.5)
(44.5)	(56.9)	(56.9)	PFI liabilities and finance leases	2	(40.0)	(47.4)	(47.4)
(217.1)	(276.2)	(254.7)	Total financial liabilities		(194.6)	(206.7)	(193.8)

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 2022/23 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.

224 Analysis of the amount outstanding for council debtors at 31 March by age is shown below:

31 March 2022 £m		31 March 2023 £m
5.3	Less than 3 months	3.8
1.2	3 to 6 months	1.0
1.0	6 months to 1 year	1.6
3.9	More than 1 year	4.6
11.4	Total	11.0

The general impairment allowance for debtors has decreased by £0.5 million to £0.8 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 2022 £m		31 March 2023 £m
(7.8)	Less than 1 year	(4.4)
(3.1)	Between 1 and 2 years	(7.0)
(19.6)	Between 2 and 5 years	(17.8)
(21.0)	Between 5 and 10 years	(21.4)
(79.3)	More than 10 years	(73.3)
(130.8)	Total	(123.9)

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.

206 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 2023.

	1% increase in interest rates £m
Increase in interest payable on borrowing	-
Increase in interest receivable on investment balances	(0.9)
Decrease in fair value of borrowing	11.2

Group financial statements and notes



Group comprehensive income and expenditure statement

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

	2021/22 Gross expenditure £m	2021/22 Gross income £m	2021/22 Net group expenditure £m		2022/23 Gross expenditure £m	2022/23 Gross income £m	2022/23 Net group expenditure £m
	157.1	(113.7)	43.4	Children and Young People	173.5	(117.5)	56.0
	109.9	(56.0)	53.9	Community Wellbeing	115.6	(51.9)	63.7
	59.5	(28.1)	31.4	Economy and Environment	95.3	(27.3)	68.0
	94.2	(46.2)	48.0	Corporate Services	101.4	(60.4)	41.0
	420.7	(244.0)	176.7	Net cost of services	485.8	(257.1)	228.7
	5.1	(0.5)	4.6	Other operating income and expenditure	8.6	-	8.6
	17.1	(6.6)	10.5	Financing and investment income and expenditure	15.1	(8.8)	6.3
	-	(200.2)	(200.2)	Taxation and non-specific grant income	-	(211.0)	(211.0)
	442.9	(451.3)	(8.4)	(Surplus)/deficit on the provision of services	509.5	(476.9)	32.6
			(15.7)	(Surplus)/deficit on revaluation of non-current assets			(28.3)
			(23.2)	Re-measurement of the net defined benefit liability			(266.5)
			(38.9)	Other comprehensive (income) and expenditure			(294.8)
			(47.3)	Total comprehensive (income) and expenditure			(262.2)

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There is a minority interest of 20% in the subsidiary. There is £nil (2021/22 £0.1 million) 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.

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 2022 £m		31 March 2023 £m
681.8	Property, plant and equipment	694.8
40.1	Investment property	41.9
0.3	Intangible assets	0.4
3.2	Heritage assets	3.9
38.9	Long term debtors	37.3
764.3	Long term assets	778.3
43.0	Short term investments	37.7
0.1	Inventories	0.3
36.6	Short term debtors	36.2
47.7	Cash and cash equivalents	30.0
127.4	Current assets	104.2

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31 March 2022 £m		31 March 2023 £m
(7.8)	Short term borrowing	(4.0)
(75.5)	Short term creditors	(61.4)
(4.2)	Short term provisions	(5.2)
(2.3)	Cash and cash equivalents	(2.2)
(89.8)	Current liabilities	(72.8)
(3.5)	Long term provisions	(1.8)
(123.0)	Long term borrowing	(119.9)
(11.7)	Capital grants receipts in advance	(15.7)
(317.7)	Other long term liabilities	(64.1)
(455.9)	Total long term liabilities	(201.5)
346.0	Net assets	608.2
(168.4)	Usable reserves	(153.8)
(177.6)	Unusable reserves	(454.4)
(346.0)	Total reserves	(608.2)

There is a minority interest of 20% in the subsidiary. There is £0.7 million (2021/22 £0.7 million) included in Usable reserves that is attributable to the minority interest.

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.

	General fund £m	Earmarked reserves £m	Total General fund £m	Capital receipts reserve £m	Capital grants unapplied £m	Total usable reserves £m	Total unusable reserves £m	Total Council reserves £m	Council's share of reserves of subsidiary £m	Total group reserves £m
Balance at 31 March 2021	(9.1)	(105.6)	(114.7)	(44.6)	(14.3)	(173.6)	(122.4)	(296.0)	(2.7)	(298.7)
Total comprehensive income and expenditure	(20.9)	-	(20.9)	-	-	(20.9)	(38.9)	(59.8)	12.5	(47.3)
Adjustments between group accounts and authority accounts	13.1	-	13.1	-	-	13.1	-	13.1	(13.1)	-
Net (increase)/decrease before transfers	(7.8)	-	(7.8)	-	-	(7.8)	(38.9)	(46.7)	(0.6)	(47.3)
Adjustments between accounting basis and funding basis under regulations	16.4	-	16.4	1.4	(1.5)	16.3	(16.3)	-	-	-
Transfers (to)/from earmarked reserves	(9.1)	9.1	-	-	-	-	-	-	-	-
(Increase)/decrease in year	(0.5)	9.1	8.6	1.4	(1.5)	8.5	(55.2)	(46.7)	(0.6)	(47.3)
Balance at 31 March 2022	(9.6)	(96.5)	(106.1)	(43.2)	(15.8)	(165.1)	(177.6)	(342.7)	(3.3)	(346.0)
Total comprehensive income and expenditure	17.9	-	17.9	-	-	17.9	(294.8)	(276.9)	14.7	(262.2)
Adjustments between group accounts and authority accounts	14.7	-	14.7	-	-	14.7	-	14.7	(14.7)	-
Net (increase)/decrease before transfers	32.6	-	32.6	-	-	32.6	(294.8)	(262.2)	-	(262.2)
Adjustments between accounting basis and funding basis under regulations	(17.9)	-	(17.9)	3.1	(3.2)	(18.0)	18.0	-	-	-
Transfers (to)/from earmarked reserves	(14.7)	14.7	-	-	-	-	-	-	-	-
(Increase)/decrease in year	-	14.7	14.7	3.1	(3.2)	14.6	(276.8)	(262.2)	-	(262.2)
Balance at 31 March 2023	(9.6)	(81.8)	(91.4)	(40.1)	(19.0)	(150.5)	(454.4)	(604.9)	(3.3)	(608.2)

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.

2021/22 £m		2022/23 £m
(8.4)	Net (surplus)/deficit on the provision of services	32.6
(40.2)	Adjust net (surplus)/deficit on the provision of services for non-cash movements	(52.2)
1.9	Adjust for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	26.4
(46.7)	Net cash flows from operating activities	6.8
25.5	Net cash flows from investing activities	(0.6)
0.4	Net cash flows from financing activities	11.4
(20.8)	Net (increase)/decrease in cash and cash equivalents	17.6
24.6	Cash and cash equivalents at 1 April	45.4
45.4	Cash and cash equivalents at 31 March	27.8
20.8	Net increase/(decrease) in cash and cash equivalents	(17.6)

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

Comprehensive income and expenditure statement	2021/22 £m	2022/23 £m	Balance sheet	31 March 2022 £m	31 March 2023 £m
Turnover	(21.2)	(23.5)	Non-current assets	-	-
(Profit) on ordinary activities before taxation	(0.6)	-	Current assets	6.6	6.6
Tax on profit on ordinary activities	-	-	Liabilities due within one year	(3.3)	(3.3)
(Profit) for the financial year after taxation	(0.6)	-	Liabilities due after more than one year	-	-
Other comprehensive income and expenditure	-	-	Net assets	3.3	3.3
Total comprehensive income and expenditure	(0.6)	-	Reserves	3.3	3.3

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A full copy of the company's accounts can be obtained from the Directors, Hoople Ltd, Plough Lane, Hereford, Herefordshire, HR4 0LE. 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.

23 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
4 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.

Supplementary accounts: Collection fund statement and notes supporting the collection fund statement



Collection fund statement

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

2021/22 Total £m		Note	2022/23 Council tax £m	2022/23 Business rates £m	2022/23 Total £m
	Amounts required to be credited to the collection fund				
144.7	Council tax	C1	150.8	-	150.8
33.6	Business rates income	C1	-	43.1	43.1
0.4	Transitional protection payments receivable		-	-	-
	Contribution towards previous year's deficit				
12.9	Central government		-	6.8	6.8
0.3	Hereford and Worcester fire authority		-	0.1	0.1
12.8	Herefordshire Council		-	6.7	6.7
204.7	Total		150.8	56.7	207.5
	Amounts required to be debited from the collection fund				
	Precepts, demands and shares				
23.1	Central government		-	19.1	19.1
6.5	Hereford and Worcester fire authority		6.3	0.4	6.7
135.6	Herefordshire Council		119.5	18.7	138.2
4.9	Parish and town councils		5.1	-	5.1
16.4	West Mercia police		17.5	-	17.5
-	Transitional protection payments payable		-	0.1	0.1
	Contribution towards previous year's surplus				
-	Hereford and Worcester fire authority		0.1	-	0.1
-	Herefordshire Council		1.3	-	1.3
-	West Mercia police		0.2	-	0.2

Collection fund statement

2021/22 Total £m		Note	2022/23 Council tax £m	2022/23 Business rates £m	2022/23 Total £m
	Charges to collection fund				
0.3	Cost of collection allowance		-	0.3	0.3
0.2	Write offs of uncollectable debt		0.1	-	0.1
0.9	Increase/(decrease) of bad debt provision		0.6	0.3	0.9
(4.5)	Changes in provision for appeals		-	0.1	0.1
0.6	Other transfers to the general fund		-	0.7	0.7
184.0	Total		150.7	39.7	190.4
20.7	Surplus/(deficit) for the year		0.1	17.0	17.1
(27.3)	Balance bought forward		4.0	(10.6)	(6.6)
(6.6)	Balance carried forward	C3	4.1	6.4	10.5

C1. Business rates income

The total non-domestic rateable value at the year-end was £135.8 million and the national non-domestic rate multiplier for 2022/23 was 51.2p.

Business rates income	2022/23 £m
Annual debit	68.0
Less	
Empty allowances	(2.7)
Discretionary relief	(0.6)
Mandatory relief	(4.7)
Small business rate relief	(10.4)
Funded reliefs	(6.3)
Enterprise zone relief	(0.2)
Total	43.1

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 2022/23 was £2,113.90 including fire, police and parish precepts, with a range of between £2,040.76 and £2,214.93. The council tax base used for setting the council tax in 2022/23 was 70,252.52. The Band D equivalents in each valuation band are shown in the table below:

Band	Valuation range	Charge factor	Band D equivalent
A	Up to £40,000	6/9	5,263.68
B	£40,001 to £52,000	7/9	11,485.29
C	£52,001 to £68,000	8/9	12,404.86
D	£68,001 to £88,000	9/9	11,824.05
E	£88,001 to £120,000	11/9	13,449.08
F	£120,001 to £160,000	13/9	9,789.30
G	£160,001 to £320,000	15/9	5,721.27
H	Over £320,001	18/9	314.99
Total			70,252.52

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Council tax income	2022/23 £m
Council tax debit	181.1
Banding change	5.4
Less	
Discounts	(16.5)
Exemptions	(4.7)
Council tax reduction	(14.2)
Disablement relief	(0.3)
Total	150.8

C3. Collection fund surplus/(deficit)

The Collection Fund surplus or (deficit) at 31 March 2023 is split as follows:

	Council tax £m	Business rates £m	Total £m
Central government	-	3.2	3.2
Hereford and Worcester fire authority	0.2	0.1	0.3
Herefordshire Council	3.4	3.1	6.5
West Mercia police	0.5	-	0.5
Total	4.1	6.4	10.5

Governance statements 2022/23



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 2022 to 31 March 2023, the key governance mechanisms in place and planned improvements for 2023/24 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.

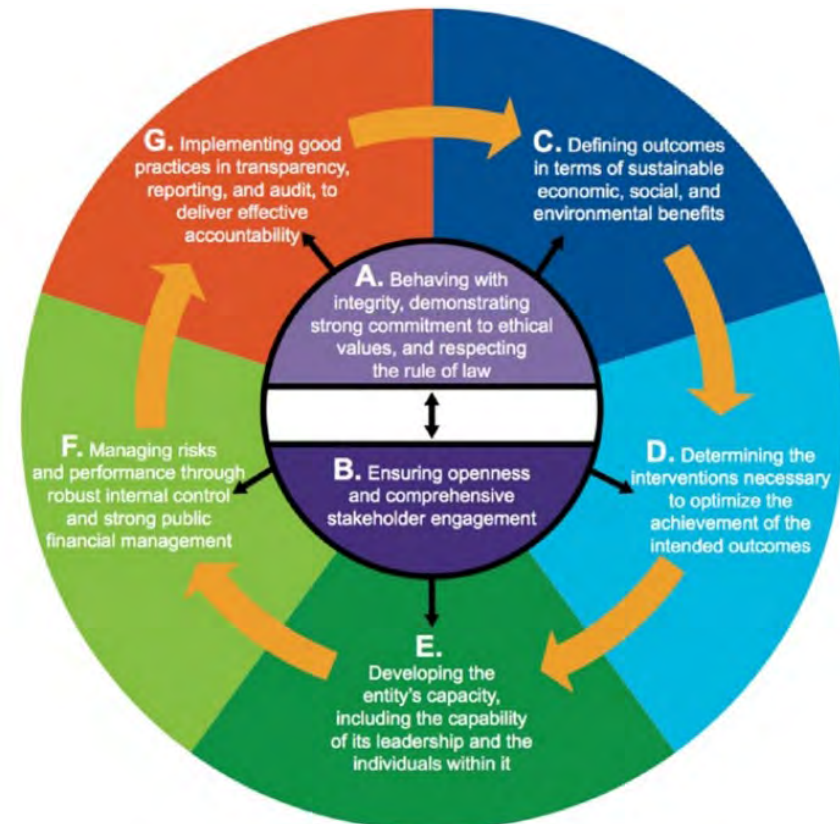
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The purpose of the Governance Framework

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, 2022/23 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.

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 2022/23 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.

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Assessment of the effectiveness of governance arrangements during 2022/23

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 2022/23:

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:

- Codes of conduct for officers and Members, revised in 2022/23;

- The Constitution, reviewed in 2021/22 as part of the council's 'Rethinking Governance' programme and adopted in May 2022, which sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people;
- A Whistleblowing Policy, revised in 2022/23 to simplify and include further guidance for staff and managers, including alternative routes for staff and a manager checklist;
- An Equality Policy, to demonstrate our commitment to equality of opportunity for all citizens, in line with the Public Sector Duty as set out in the Equality Act 2010;
- Processes to support delivery of the council's ethical values including Declarations and Registers of Interests;
- A Corporate Complaints Policy ensuring effective investigation and appropriate response to formal complaints; and
- A Shareholder Committee, established in 2022/23, to provide governance arrangements in relation to companies and other legal entities wholly or partly owned, or controlled by the council.

The governance arrangements, as identified above, have been effective in the period from 1 April 2022 to 31 March 2023. 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 officer and Member training; to increase constitutional awareness and individual responsibility for compliance and ensure that these values become embedded in behaviour.
- Monitoring and oversight of financial and other risks and decision making in respect of the council's subsidiaries to ensure effective governance and separation of duties.
- The Shareholder Committee will ensure that the council's management of its obligations as shareholder, is structured and transparent.

Core Principle B: Ensuring openness and comprehensive stakeholder engagement

Key aspects of the council's governance arrangements during 2022/23:

The Chief Executive and Corporate Leadership Team value and are committed to ensuring that employee feedback is sought, listened to and acted upon. To promote engagement and maintain effective employee relations, monthly all staff briefings are hosted by the Chief Executive and Leadership Group.

Activity during 2022/23 comprised:

- Strengthened engagement with staff through a weekly staff update to share staff news, wellbeing advice, training and development opportunities and relevant partner news.
- Flexible Futures: Investment in improvements to technology and workplaces to enable collaborative and flexible working practices and support the wellbeing of all employees.
- The 2022 Employee Survey: responses have been considered by the Corporate Leadership Team and the Employee Survey 2022-24 Action Plan has been developed to respond to the priorities identified. Progress against the plan will be reported quarterly.
- Feedback from events and surveys to inform the council's corporate priorities. Consultations and surveys, to engage the views of stakeholders, included: the Health and Wellbeing Strategy, the Big Economic Plan, 2023/24 Budget proposals, Signs of Safety survey.
- The council's 'Making It Real' Board was reinvigorated to enable individuals with lived experience to play an active role in adult social care. Members of the Community Wellbeing Directorate Leadership Team have provided regular information and updates to the Board and sought input. In 2022/23, the Board has provided support to improve guidance for financial assessments and has been actively involved in plans for the new Museum to ensure that it is fully accessible.

- The Herefordshire Sustainable Growth Strategy Board was formed in 2022/23 to lead the development of the UK Shared Prosperity Investment Plan and Big Economic Plan. The Economy and Place Partnership Board, consisting of public, private and voluntary sectors, will lead the delivery of the plan in 2023/24 and beyond.
- The council's environmental ambitions and activities are driven by the Climate and Nature Partnership Board which brings together expertise and knowledge across conservation, wildlife, architecture, farming, agricultural policy and media sectors to drive and coordinate achieving zero carbon in the county by 2030.

The governance arrangements, as identified above, have been effective in the period from 1 April 2022 to 31 March 2023. Areas where it is recognised that governance arrangements could be further strengthened include:

- Improved co-ordination of the council's internal and external inspection and regulatory framework, to inform assurance and improve information sharing and shared learning from lessons learnt across the organisation.
- Continuous review and update of council strategies and policies which support stakeholder engagement and transparency; aligned to the council's wider transformation programme.

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

Key aspects of the council's governance arrangements during 2022/23:

- Cabinet agreed the Delivery Plan for 2022-23 on 31 March 2022, in delivery of the County Plan that runs from 2020 to 2024. Performance against the actions identified to deliver the ambitions of the Plan is monitored and reported to Cabinet quarterly. Reporting identifies the lead officer, outlines progress made in the quarter against the performance measures relevant to each action and indicates the assessed risk of delivery.
- There are three key objectives of the county plan that are followed through with actions in the delivery plan:

Environment: Protect and enhance our environment and keep Herefordshire a great place to live

Community: Strengthen communities to ensure everyone lives well and safe together

Economy: Support an economy which builds on the county's strengths and resources

- The council's Big Economic Plan and draft delivery plan sets a vision for sustainable economic growth of the county, improving the quality of life for all, while protecting the natural environment as a key asset. The Six Capitals approach, on which the plan is modelled, provides a framework of actions to tackle climate change and environmental issues, encourage community and social enterprise and identify opportunities in a growing green economy. Delivery of the Plan will be monitored by the Herefordshire Economy and Place Board.
- The Herefordshire Climate and Nature Partnership, established in 2021/22, has continued to drive the county's goal to become carbon net zero and nature rich by 2030 through community engagement and the Greener Footprints campaign.

The governance arrangements, as identified above, have been effective in the period from 1 April 2022 to 31 March 2023. Areas where it is recognised that governance arrangements could be further strengthened include:

- Improvements to the council's performance monitoring arrangements in 2023/24 will support transparent and timely reporting aligned to the council's priorities and key objectives.
- Development of the Herefordshire Economy and Place Board in 2023/24 to implement the Big Economic Plan and support effective and collaborative partnership working.
- Consideration of environmental, social and economic arrangements as part of the council's wider deliverables, governance and decision making processes.

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

Key aspects of the council's governance arrangements during 2022/23:

- 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.

- Performance against actions from the council's Delivery Plan was reported quarterly to Cabinet during 2022/23.
- 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.

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

- In addition to improvements in performance monitoring arrangements, there is a need for a robust system of accountability for performance against corporate, financial and management targets.
- Planned transformation activity in 2023/24 under the council's 'Thrive' programme will accelerate the achievement of improvements in service delivery to include digital transformation and an efficient and improved customer experience.

A key area for improvement for the council is the 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. 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 2022/23:

- To deliver the council's objectives, we rely on our staff to undertake daily duties underpinned by the PEOPLE values; a set of principles which shape our culture, guide activity and aid decision making:

People: treating people fairly, with compassion, respect and dignity

Excellence: striving for excellence, and the appropriate quality of services, care and life in Herefordshire

Openness: being open, transparent and accountable

Partnership: working in partnership and with all our diverse communities

Listening: actively listening to, understanding and taking into account people's views and needs

Environment: protecting and promoting our outstanding natural environment and heritage for the benefit of all

- Mandatory learning is in place for all staff and monitored by Directorate Leadership Teams. The council has invested significantly in its learning offer, informed by feedback from the employee survey. The My Learning Hub includes topics covering core skills identified as learning gaps in the survey including: coaching skills, resilience, public speaking and presentation, productivity and smarter working.
- The council's performance and development planning process: My Conversation, covers employee health and wellbeing, a review of performance, individual outcomes and personal development and this process promotes discussion and sharing of feedback and recognition.
- The Workforce and Organisation Development Strategy supports the council's aim to develop an engaged, agile and resilient workforce, enabled through the council's Flexible Futures programme and planned transformation activity.

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

- The capacity and capability of Members and officers should be further developed through enhanced arrangements for tailored training relevant to individual roles and responsibilities.
- The council's recruitment and retention activity should be reviewed, in the context of regional and national recruitment challenges, to ensure the permanency of our workforce to create stability, consistency and continuous improvement in the delivery of services.

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 2022/23:

- 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 County Plan. Quarterly budget and performance reports are presented to Cabinet to report progress against the agreed revenue budget, capital programme, savings and service delivery targets.
- Risk management involves the identification, analysis and control of threats or events that adversely affect the achievement of the council's strategic and operational objectives. It also enables positive risks to be taken to innovate and improve service provision. The council's Risk Management Plan details the methodology for evaluating corporate risk management arrangements and its delivery is monitored by Audit and Governance Committee.
- The council operates 3 levels of risk registers; Corporate, Directorate and Service. The highest risks are included in the Corporate Risk Register, with lower level operational risks recorded in Service Risk Registers. Alongside these, project risks are identified in Project and Programme Risk Registers.

- 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 been carried out in 2022/23: additional training has been delivered to staff and Members, the website content has been improved to aid the reporting of instances of fraud and we have continued to develop methods of partnership working to identify and investigate fraud.
- An assessment of the council's maturity in relation to fraud was carried out by Internal Audit during the year and this highlighted improvements in culture and awareness as well as reporting, investigating and monitoring.
- The council supports and submits data for the National Fraud Initiative (NFI) and assesses all matches for review and, where appropriate, mitigation.
- The Financial Procedures Rules (FPRs) control the way the council manages its finances and safeguards its assets. They form part of the Constitution and outline the financial roles and responsibilities for staff and Members and provide a framework for financial decision-making.
- A review of internal financial reporting has been undertaken during 2022/23. Through consultation with stakeholders across the council and collaborative working, improvements in monitoring and reporting have been delivered to support the early identification of key financial risks and the implementation of recovery plans and mitigating actions.

The governance arrangements, as identified above, have been effective in the period from 1 April 2022 to 31 March 2023. Areas where it is recognised that governance arrangements could be further strengthened include:

- Development of the Shareholder Committee, established during 2022/23, to monitor the position and performance of the council's subsidiary interests and identify risks relevant for escalation to Cabinet.
- A review of the council's risk management arrangements to ensure consistency, improved accountability and robust identification of actions to mitigate risk.
- The council's Corporate Leadership Team will set the organisational risk strategy aligned to planned transformation activity in 2023/24 and training will be developed for Officers and Members.

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

Key aspects of the council's governance arrangements during 2022/23:

- 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.
- 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 weekly 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.

The governance arrangements, as identified above, have been effective in the period from 1 April 2022 to 31 March 2023. Areas where it is recognised that governance arrangements could be further strengthened include:

- Increased focus on the council's performance measures and cohesive public reporting through improved performance monitoring and holding to account against corporate objectives.
- To ensure that there is an effective and transparent scrutiny process, additional training should be provided and a strengthening of arrangements for briefing sessions between Members and officers.

Significant Governance Issues

The review of governance arrangements has identified the following areas which will be a key focus for the council's leadership in 2023/24:

- **Improvements in Children's Services:** the Herefordshire Children's Services Improvement Plan has been developed to transform children's social care services. The detailed action plan sets out how the council will address each of the areas identified for improvement by Ofsted following a review of the service in July 2022 and a further area identified during a recent Local Government Association (LGA) Special Education Needs and Disabilities (SEND) Peer Review. It has been developed in collaboration with a range of stakeholders including children, young people, parents, carers, the workforce and multi-agency and cross-sector partners. Delivery against the plan will be monitored through the Children's Improvement Board, chaired by an independent Improvement Advisor, and reported to Cabinet. The council will continue to work closely with the Children's Commissioner and the Department for Education appointed Improvement Advisor, to deliver improvements in 2023/24. The Commissioner will continue to oversee the improvement programme and the council will look to secure a long-term improvement partnership with another Ofsted rated 'Good' or 'Outstanding' neighbouring local authority to support best practice in the implementation of activity to improve outcomes for children and young people across the county.
- **Financial Management and Resilience:** ensuring that financial monitoring is supported by a robust and realistic budget and effective and timely in-year monitoring of performance against budget and delivery of agreed savings plans.

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 2021/22, Grant Thornton gave an unqualified audit opinion on the financial statements.

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.

252 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 2023, 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 2022 to 31 March 2023. 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: XX/XX/2023

Jonathan Lester
Leader of the Council
Date: XX/XX/2023

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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 finance leases.
Capital adjustment account	<p>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.</p> <p>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.</p> <p>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.</p>
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	<p>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</p> <p>A present obligation that arises from past events but is not recognised because</p> <ol style="list-style-type: none"> it is not probable that an outflow of resources embodying economic benefits or services potential will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Term	Definition
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.
Collection fund adjustment account	The collection fund adjustment account manages the differences arising from the recognition of council tax and non-domestic rates income in the comprehensive income and expenditure statement compared with the statutory arrangements for paying across amounts to the general fund from the collection fund.
Debtors	Financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.
Depreciation	The systematic allocation of the depreciable amount of the asset over its useful life.
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	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.

Term	Definition
Intangible asset	An identifiable asset without physical substance e.g. computer software.
Inventories	These are assets; <ul style="list-style-type: none"> 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.
Liabilities	Present obligations arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.
Material	Items are material if they could, individually or collectively, influence the decisions or assessments of users. Materiality depends on the nature or size of the item, or both.
Minimum revenue provision (MRP)	A provision made for the repayment of notional borrowing used to finance capital expenditure.
Non-exchange transactions	Transactions in which an entity either receives value from another entity without giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
Operating lease	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.

Term	Definition
Revaluation reserve	<p>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:</p> <ul style="list-style-type: none"> 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. <p>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.</p>
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.
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.

Summary Financial Statements

2022/23

The Cost of Council Services for 2022/23

The Comprehensive Income & Expenditure Statement reflects the cost of providing the council's services. The top section of the statement reflects the full cost of providing services under International Financial Reporting Standards and shows whether the council's operations resulted in a surplus or deficit for the year.

The bottom section 'Other Comprehensive Income & Expenditure' includes details of the gains or losses in the measurement of the assets and liabilities of the council which arise as a result of changes in market valuations, interest rates or changes in measurement assumptions relating to pension assets and liabilities.

The Statement includes accounting adjustments as prescribed by legislation.

Comprehensive Income & Expenditure Account

2021/22 £m		2022/23 £m
44.7	Children & Young People	57.2
57.5	Community Wellbeing	67.2
31.6	Economy & Environment	68.5
43.5	Corporate Services	35.8
177.3	Net Cost of Services	228.7
4.6	Other Operating Income & Expenditure	8.6
10.5	Financing & Investment Income & Expenditure	6.3
(200.2)	Taxation & Non-specific Grant Income	(211.0)
(7.8)	(Surplus)/Deficit on the Provision of Services	32.6
(15.7)	(Surplus)/Deficit on Revaluation of Non-current Assets	(28.3)
(23.2)	Re-measurement of the Net Defined Benefit Liability	(266.5)
(38.9)	Other Comprehensive (Income) & Expenditure	(294.8)
(46.7)	Total Comprehensive (Income) & Expenditure	(262.2)

The Revenue Outturn shows the council's actual spend for the year against its planned with the difference shown as the variance. The negative figures represent areas where spend was less than planned and positive figures where spend was greater than planned.

Revenue Outturn

Service Area	Budget £m	Outturn £m	Variance £m
Children & Young People	52.9	62.5	9.6
Community Wellbeing	68.4	67.2	(1.2)
Economy & Environment	27.9	27.6	(0.3)
Corporate Services	18.1	17.3	(0.8)
Sub Total: Services	167.3	174.6	7.3
Central, Treasury Management	8.6	6.8	(1.8)
Total	175.9	181.4	5.5

Balance Sheet

The Balance Sheet summarises the council's financial position at 31 March 2023 and reports the assets, liabilities and reserves which show what the council owns and how much it owes.

2021/22 £m	Summary Financial Position	2022/23 £m
885.9	Assets (owned by the council)	877.0
(543.2)	Liabilities (owed by the council)	(272.1)
342.7	Net Financial Position (Assets less Liabilities)	604.9
	Held in reserves as follows:	
(165.1)	General Reserves (Usable)	(150.5)
(177.6)	Other Reserves (Unusable)	(454.4)
(342.7)	Total Reserves	(604.9)

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. 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. The increase in unusable reserves is largely due to changes in the pension liability following the triennial actuarial valuation at 31 March 2023.

2021/22 £m	Reserves	2022/23 £m
(155.8)	Usable Reserves	(141.2)
(9.3)	School Reserves	(9.3)
(177.6)	Unusable Reserves	(454.4)
(342.7)	Total Reserves	(604.9)

Capital Expenditure

Additions to the council's Non-Current Assets are included in the Balance Sheet. These amounts represent capital expenditure in the year across the relevant category.

These assets are depreciated over their useful lives to match the cost of an asset to the period over which the council benefits from its use.

2021/22 £m	Additions	2022/23 £m
3.2	Land & Buildings	7.6
0.2	Surplus Assets	0.2
-	Assets Under Construction	0.8
0.9	Vehicles, Plant, Furniture & Equipment	1.1
23.4	Infrastructure Assets	24.1
0.2	Software & Licences	0.1
2.5	Investment Assets	0.4
-	Heritage Assets	0.8
30.4	Total	35.1
	Financed by:	
(3.3)	Capital Receipts	(4.6)
(27.1)	Government Grants & Other Contributions	(30.5)
(30.4)	Total	(35.1)



Title of report: External Auditor's Annual Report 2021/22

Meeting: Audit and Governance Committee

Meeting date: Friday 23 June 2023

Report by: Head of Strategic Finance

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards)

Purpose

To present to the Audit and Governance Committee the External Auditor's Annual Report 2021/22 for information and discussion.

Recommendation

That:

- a) **The committee reviews the external auditor's report, notes its findings and recommendations and considers 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 2021/22 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 to secure economy, efficiency and effectiveness in the use of its resources. The Annual Audit Report looks back over the 2021/22 year and summarises all of the reports and work that the external auditors have undertaken. The report closes the 2021/22 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. The report focuses on the arrangements in place during the financial year ended 31 March 2022 under three key themes: financial sustainability, governance and improving economy, efficiency and effectiveness in the use of resources. Improvements noted across these themes during 2021/22 are summarised on page 3 of the report.

Financial Sustainability

5. 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.
6. In this area, the report notes that there are no significant weaknesses in arrangements or improvement recommendations and the auditors consider that, subject to continued careful financial management, the council has sufficient reserves to mitigate against uncertainty in the short to medium term.

Governance

7. The auditor's work considers how the council monitors and assesses risk, gains assurance over the effectiveness of internal controls and how the council makes properly informed decisions, supported by appropriate evidence to allow for challenge and transparency.
8. In this area, the report notes that there are no significant weaknesses in the council's governance arrangements for ensuring that it makes informed decisions and properly manages risks. Two areas for improvement have been identified and these are detailed on pages 18 and 19 of the report with proposed management action provided by officers.

Improving economy, efficiency and effectiveness in the use of resources

9. The auditor's work considers how the council uses financial and performance information to identify areas for improvement and evaluate service delivery, stakeholder engagement and expected benefits from commissioning and procurement activity.
10. In this area, the report notes three significant weakness first identified in 2020/21 which remain:
 - a) Improvements in Children's Social Care Services;
 - b) Contract management arrangements in respect of the public realm contract; and
 - c) Contract arrangements and trading status of Balfour Beatty Living Places
11. Two areas for improvement have been identified and these are detailed on pages 26 and 27 of the report with proposed management action provided by officers.
12. The report recognises that progress against these findings and recommendations has been made in the period since the financial year under review (2021/22) and this progress will be assessed as part of the work undertaken in respect of the 2022/23 financial year.

Community impact

13. 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

14. 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.
15. Whilst this is a report for information and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

Equality duty

16. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –

- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
17. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

18. 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

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

Risk management

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

Consultees

21. None.

Appendices

Appendix 1 Auditor's Annual Report on Herefordshire Council 2021/22

Background papers

None identified.

Auditor's Annual Report on Herefordshire Council

2021/22

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15 June 2023





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

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



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Appendix A – Responsibilities of the Council	
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Appendix C – An explanatory note on recommendations	

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

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Executive summary



Value for money arrangements and key recommendations

This report focuses on the arrangements in place during the financial year 2021/22.

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

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions and the direction of travel between 2020-21 and 2021-22 are shown in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risk of significant weakness identified	No significant weaknesses in arrangements identified, but seven improvement recommendations made	No significant weaknesses identified; no improvement recommendation have been raised. Further details can be found on pages 8 to 13.	↑
Governance	Risk identified that the Council had not learnt from previous issues or followed-up on previous actions	No significant weaknesses in arrangements identified, two improvement recommendations made	We have also identified two improvement recommendations. Further details can be found on pages 14 to 17.	↔
Improving economy, efficiency and effectiveness	Risks identified: <ul style="list-style-type: none"> Court judgement and non-statutory notice for Children's Social care Services Lack of effective contract management arrangements for public realm and facilities management contracts Continuing to contract with a dormant company, Balfour Beatty Living Places 	Three significant weaknesses identified and five improvement recommendations	Three significant weaknesses identified in 2020/21 remain: <ol style="list-style-type: none"> Failure to meet the statutory needs of children within its Children's Social Care Services Not effectively contract managing its public realm contract Continuing to contract with a dormant company. Two improvement recommendations raised. Further details can be found on pages 20 to 25.	↔

Our work has identified areas for improvement, particularly in the area of improving economy, efficiency and effectiveness where we have issued key recommendations. However, we have not raised any statutory recommendations, which as set out in Appendix C are reserved for the most serious concerns over VFM arrangements.

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

Executive summary



Value for money arrangements and key recommendations

2021/22 has been another challenging year for the Council. Children's Social Care Services continue to be a area of concern with inspectors concluding that the Council has made limited progress in improving the quality of practice for children in need and those subject to child protection, culminating in a inadequate Ofsted rating in July 2022. There have, however, been signs of improvement across other areas of the business, including the Market Town Investment initiative aimed increase investment in local economic and social projects. We also note the timely conclusion of the 2021/22 opinion audit of the Council's financial statements.



Financial sustainability

The Council achieved an underspend of £0.54m against its annual 2021/22 budget of £161m, after receiving COVID-19 funding of £4.79m. The greatest pressure within year was within the Children's, Young People and Family Services which was overspent by £4.4m. Despite this, financial pressures remain and if not carefully managed will adversely impact on financial sustainability into the medium term. Specifically, the draft financial statements for 2022/23 report an overspend in 2022/23 of £5.6m. There is also a budget gap of £15.8 from 2024/25 to 2026/27.

We note that, unlike a number of other councils across England the Council has not accumulated a deficit balance within its Dedicated Schools Grant (DSG), within its high needs block (special educational needs and disability) and continues to actively manage this risk to prevent the entering a deficit.

We have not identified any risks of significant weaknesses in arrangements as part of our work on financial sustainability or improvement recommendations and consider that, subject to continued careful financial management, the Council has sufficient reserves to cover this overspend and mitigate against the uncertainty in the short to medium term.

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Governance

We found no evidence of significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks, although we have identified two areas for improvement. The Council needs:

- to make more progress in implementing the change required to bring about the desired improvements in respect of the key regulator and auditor recommendations
- consider appointing independent members to the Audit and Governance Committee.



Improving economy, efficiency and effectiveness

In our 2020/21 report which was reported to Audit and Governance Committee in May 2022 we raised three areas of significant weakness and three corresponding key recommendations. These significant weaknesses and key recommendations remain valid for 2021/22. The key recommendations from our work in 2020/21 which relate to these significant weaknesses are set out on pages 29 and 30.

1. The Council's failure to meet the statutory needs of children in its care. This is evident from the findings in the court judgment issued in March 2022, the lack of progress made since Ofsted inspected in 2018 and the 'inadequate' Ofsted inspection rating provided in July 2022.
2. The Council's lack of effective contract management arrangements for its public realm and facilities management contracts, to enable it to hold its contractor to account, is a significant weakness in arrangements.
3. The Council's continued contract management arrangements with Balfour Beatty Living Places Limited (BBLP), a dormant company and the Council's failure to seek further third party legal advice, document its decision to continue to contract with BBLP, consideration of the risks this might continue to pose and make Cabinet aware of this decision.

We recognise that these judgements relate to 2021/22 and that since then further progress has been made across a number of areas by the Council. This progress will be assessed when we review arrangements relating to the financial year 2022/23.

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 8 February 2023.

Audit Findings Report

More detailed findings can be found in our AFR and subsequent addendum, which was published and reported to the Council's Audit & Governance Committee on 31 October 2022.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. We are awaiting NAO guidance in this area.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

Our work identified one material error and a resulting prior period adjustment. The error related to the reclassification of the council's Energy from Waste asset, previously reported as land and buildings, as an item of plant and machinery.

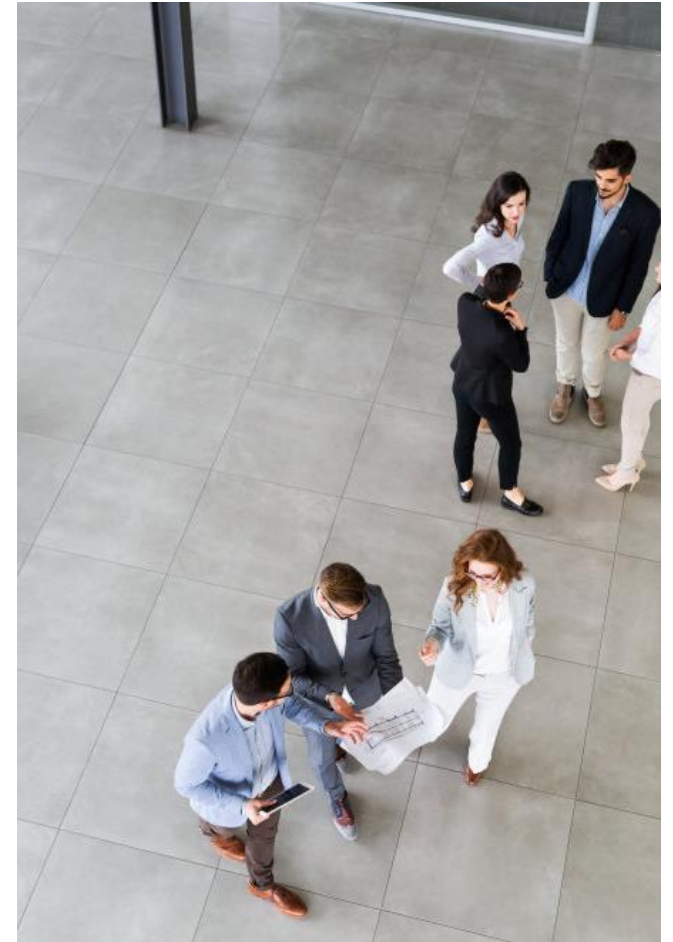
We also identified a number of other errors also corrected in the final statements that have resulted in a £143k adjustment to the Council's Comprehensive Income and Expenditure Statement.

Our subsequent addendum report highlighted two further issues in respect of infrastructure and the net pension liability disclosure both misstated but given that these amounts were below materiality, no changes were made and we concurred with managements view that these were not material to the reader.

The Council has strengthened its finance team in the year and we have noted an improvement in the quality of working papers and response to audit queries that have facilitated a more timely completion of the opinion audit in 2021/22.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Use of auditor's powers

We bring the following matters to your attention:

Statutory recommendations

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

We did not issue any statutory recommendations

Public Interest Report

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

We did not issue a public interest report

Application to the Court

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

We did not apply to the Court.

Advisory notice

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

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

We did not issue an advisory notice.

Judicial review

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

We did not apply for judicial review.

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

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

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

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

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



Financial Sustainability

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



Governance

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

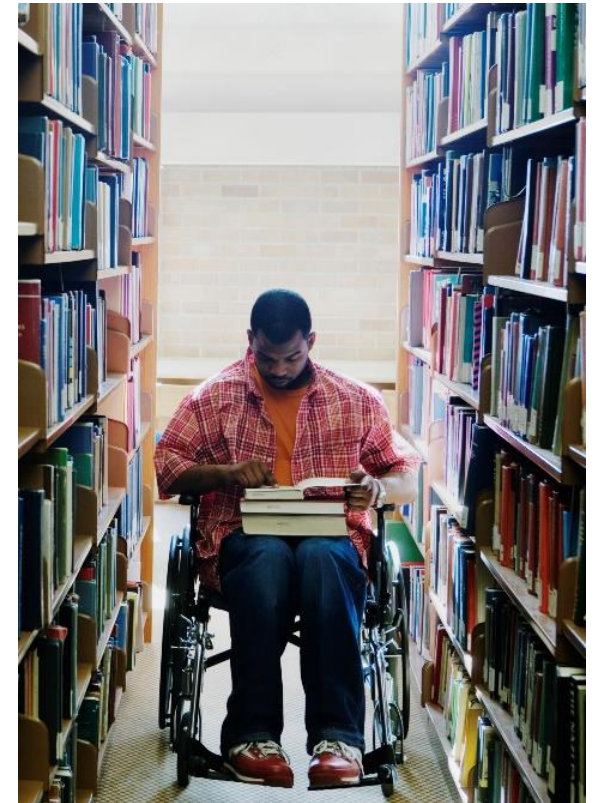


Improving economy, efficiency and effectiveness

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 8 to 28. Further detail on how we approached our work is included in Appendix B.



Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

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Budget Outturn

The Council achieved an underspend of £0.54m against its annual 2021/22 budget of £161m. This underspend was delivered after receiving COVID-19 funding of £4.79m. The greatest pressure was within Children's, Young People and Family Services which was overspent by £4.4m, predominately due to the cost of residential placements.

Budget	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Planned	144	151	157.12	161	175
Outturn	143.5	150.5	157.16	160.5	181*
(Over) underspend	0.5	0.5	0.04	0.5	(10)

* Estimated 2022/23

The table above shows the budget compared to actual spend from 2018/19 to 2021/22 along with the latest estimate for 2022/23 and shows a good track record of delivering against its planned budget. Given the financial pressures facing all councils, the Council is finding it increasingly difficult to balance the books into the medium term and 2022/23 is no different. Officers continued to work to bring the 2022/23 budget back on track in the final part of the year, with a draft outturn position of a £5.6m overspend reported.

Identifying and addressing financial pressures

The 2022/23 budget was agreed and reported to Cabinet in January 2022, along with the Medium-Term Financial Strategy (MTFS). The budget included Council tax increase of 2.99% (inclusive of 1% adult social care precept) and 2% for future years.

For 2022/23 Council identified the following budget pressures:

- Inflation and other contractual increases.
- Losses of income due to effects of COVID-19.
- Homecare staff shortages including social care workers
- High costs in Children and Young People Placements
- Pay inflation

The 2023/24 MTFS forecast an overspend of £6m (£5.6m actual overspend) in 2022/23 to be funded from the Council's earmarked reserves. It also shows a budget gap of £15.8m over the next three years of the MTFS, as illustrated below. This is a current area of challenge for the Council.

Budget	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Net	176	193	208	233	244	
Gap	-	-	9.11	0.18	6.51	15.8

Identifying and addressing financial pressures (continued)

The MTFS, annual budget and the associated savings proposals and pressures are considered each year by the Scrutiny Management Board.

In 2020/21 we identified that the published MTFS did not provide financial forecasts beyond one year. The Council has looked to address this and as part of the 2022/23 budget setting process the MTFS showed only income projections for more than one year, but in 2023/24 the MTFS showed income and expenditure forecasts for three years as part of the appendices. The income and expenditure forecasts, along with any resulting budget gap is a key aspect of the MTFS and can be found within appendix M” of the 2023/24 to 2026/27 MTFS.

Currently the Council use a third party to model its MTFS plans which are refreshed throughout the year. Inputs are based on income sources together with latest data and assumptions specific to the Council and linked to government announcements. The Council has arrangements in place to ensure that budget assumptions are reasonable and that specific pressures are adequately reflected in the numbers along with the key sources of funding. An example of this is the additional monies allocated to children’s social care service over recent years.

The 2022/23 MTFS identified key risks including external risks that could affect the delivery of the Council’s planned savings, treasury management, capital strategy and reserves. The key risks identified were assessed in terms of likelihood and impact with mitigating actions. For example, high needs budgets which are funded by the dedicated school’s grant, where many other councils are in a deficit position. Whilst the Council anticipates increase in central government funding, it has managed to stay within budget to avoid a deficit position.

In response to the increased pressures, for example additional placement costs from unexpected demands, the financial resilience reserve was established to manage risks present in the base budget. This reserve will also fund the two year transformation programme the Council has embarked upon to improve the journey of the children social care services, as noted below.

The Council’s priority to improve the Children’s Social Care Service is also a significant financial pressure. Since the court judgement issued in April 2021 and the issue of statutory improvement notice from the DfE, the Council and the DfE have provided additional funds to the Council’s Children’s Social Care Service. In 2021/22 the Council agreed funding of £5.22m which has since been increased to £11.49m, which has been funded from the financial resilience reserve. The DfE have also provided funding of £1.7m.

The Council’s arrangements for budget setting an medium term financial planning continue to be refined and now provide more detail on assumptions reflecting the increased uncertainty of both funding and cost pressures. The Council’s 2023/24 budget setting process considered a range of assumptions and scenarios, such as a range of different Council Tax rises and movement in the pay award. For 2024/25 to 2026/27 a range of best/worst and most likely scenarios were considered for both income and expenditure. These scenarios have not been presented publicly within the MTFS, but have been discussed with members within the Council’s range of meetings, known as Star Chamber sessions.

Financial planning aligned with strategic priorities

As discussed earlier within our governance section, the Council’s vision and objectives are set out within its County Plan, below which sits the delivery plan. The MTFS and budget are linked to the County Plan and provide the detail of how key priorities will be funded.

The current County Plan 2020-24 takes into consideration factors such as the Council’s rurality, the aging population profile and social mobility for young people, as challenges to service delivery.

In March 2022, Cabinet approved four Market Town Investment Plans (MTIPs) in order to increase investment in local economic and social projects. The development of the MTIPs highlights significant enhancement to infrastructure, public realm, shop fronts and buildings. This improved economic development should benefit both local residents and business owners and should also benefit the Council through increased revenue (business rates) and reduced dependency on Council Tax benefit.

Plans to bridge the funding gaps and identify achievable savings

The Council does not have a track record of delivering all its planned savings. Delivery against planned savings is set out in the table opposite. In 2021/22 the Council had a savings target of £11m and only delivered savings of £8m (72%), additional income for central government, the most significant of which was covid funding offset this shortfall. For 2022/23 the savings target is significantly lower.

Throughout 2021/22 savings delivery performance was reported quarterly as part of the budget performance reports. As at September 2022, 74% of the savings target for 2022/23 has been achieved, recognising the much lower total.

Last year we recommended that the Council should ensure narrative is provided to explain any slippage in savings targets in its quarterly budget performance reports provided to Cabinet. We found that a narrative explaining the reason for the slippage was provided for the majority of saving schemes in 2022/23.

The 2023/24 indicative budget is predicated on the delivery of £14.1m of savings. In the following 3 years through to 2026/27 a total gap of £15.8m currently exists (as illustrated in the table on page 8) that will inevitably require further savings and efficiencies to balance the books. Delivering the full budget levels of savings and the importance of these being recurrent savings will only increase into the medium term given the gaps identified in the MTFS.

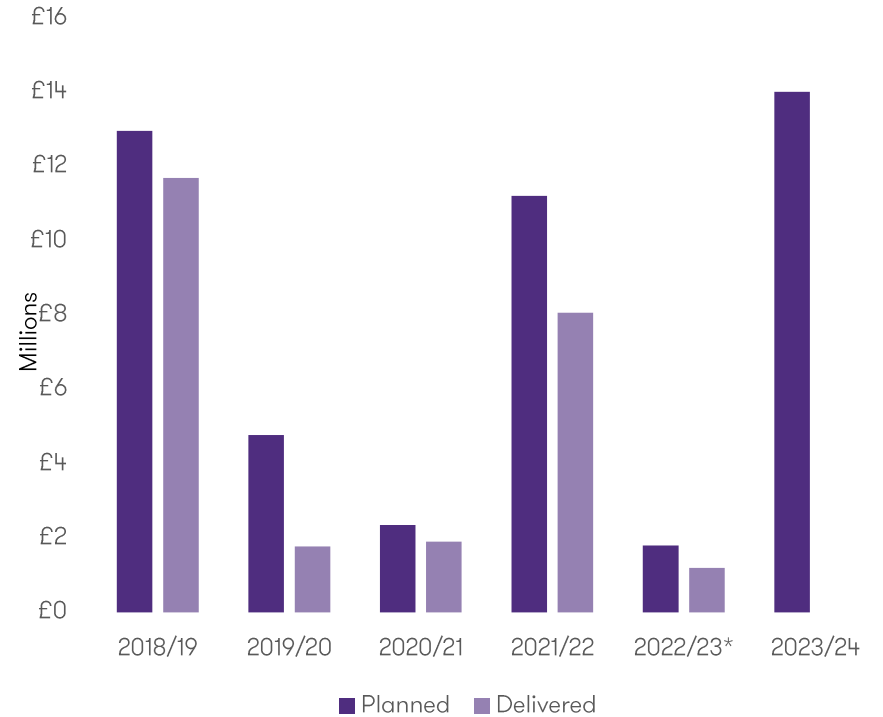
Treasury management

The Councils three-year Treasury Management Strategy (TMS) includes investment and borrowing strategies with consideration to risks such as security, liquidity and interest rates, with the aim to maximise return on investments and minimise interest rate costs.

Cabinet received treasury management updates within the quarterly finance and performance reports. The TMS and a Capital Investment Strategy for 2022/23 was approved by Full Council in Feb 2022 as part of the budget. The Capital investment Strategy for 2022/23 indicates:

- a borrowing strategy to restrict short term loans to a total of 50% of loans required, thereby minimising the exposure on interest rate risk. It is estimated that this approach saves the council in excess of £1m of borrowing costs per annum
- £51.3m of capital spend requiring financing from prudential borrowing
- the Council’s underlying need to borrow is expected to increase by £16.6m
- borrowing budget includes provision (£5.2m) to pay interest costs on short-term and existing fixed long-term borrowing
- capital investment budget of £99m in 2022/23 , £90m in 2023/24 and £45m in 2024/25.

Planned savings compared delivered



Long-term borrowing

The chart opposite shows that the Council in comparison to other similar councils has a low proportion of long term debt as a proportion of its long-term assets, illustrating that the Council has low levels of long-term debt. This will reduce the risk of exposure to increases in interest rates.

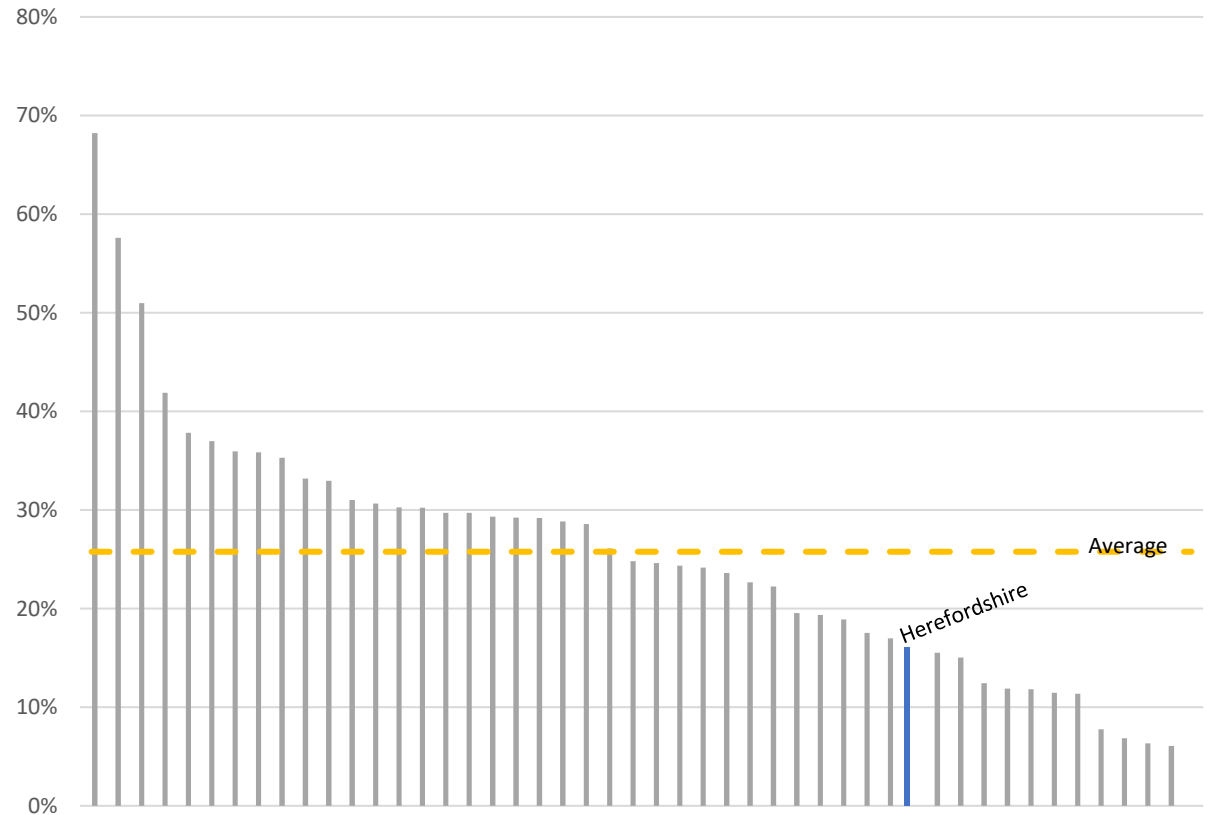
The average percentage of borrowing is 26%, the Council is below average at 16% and is at the lower end of the scale compared to other unitary councils.

Workforce and strategy plans

The Council adopted its Workforce and Organisation Development Strategy (2021-2024) in January 2021. This strategy outlines the work the teams will do over the next four years to support the delivery of the County Plan. The workforce plan which would support this strategy has not been developed. Until the Council develops its workforce plans it cannot ensure the MTFS and budget is aligned to its future workforce proposals.

We recommend that the Council develop its workforce plans to understand what it requires and in turn ensures that the costs of such proposals are fully reflected in its MTFS and other financial plans can be amended to meet those needs. This was raised as an improvement recommendation last year and remains outstanding.

Long-term borrowing as a proportion of Long-term assets (%) 2020/21



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Workforce and strategy plans continued

A report on workforce issues within children's social care service was presented to scrutiny in February 2022 the report contained results of a staff survey which uncovered multiple areas including the issue of "Silo Working" as a theme area. The Council's Director of Human Resources informed us that the next steps would be to develop an action plan to address the issues raised. We recommend that as the Council work towards updating its workforce strategy in 2023, it continues to request and receive feedback from regular staff surveys and in addition to recruitment, it also focuses on retention strategies to ensure a sustained work force.

Capital Investment

The Council's Capital Strategy approved in February 2022 clearly set out the process to approve capital projects and linked the capital projects to the County Plan aims. Each proposed Capital schemes is aligned a project delivery board, each delivery board report to the CLT .

It is standard practice to re-profile the capital budget in quarter one, as a result the Council's Capital investment budget in 2021/22 was reprofiled from £97m to £69m.

	2020/21	2021/22	2022/23
Original capital budget	£122m	£97m	£99m
Reprofiled	£99m	£69m	£67m
% reprofiled	19%	29%	32%
Outturn	£55m	£37m	£55m*
% shortfall to original budget	55%	62%	44%
% shortfall to reprofiled budget	44%	46%	18%

* Forecasted outturn third quarter 2022/23.

At the end of the 2021/22 year, the shortfall (£32m) consisted of £4.79m for projects that have delivered below budget and the capital funds are no longer required. The remaining £26.7m has been rolled forward to 2022/23.

Capital Budget for 2022/23 - increased from £99m to £133.8m (due to £26.7m unspent budget carried forward from 2021/22 and £8m additional grants) and was reprofiled to £67m. The Council already forecasts an underspend of £12m against a reprofiled budget of £67m.

In prior year, we recommended that Council should report capital outturn against the original capital budget and ensure this budget more accurately reflects the expect capital spend in year. This recommendation has been addressed along with an explanation where slippage has occurred, see page 33.

Level of Reserves

The first chart on the next page illustrates the level of general fund, earmarked reserves and school balances for the Council at the 31 March each year for 2017/18 to 2022/23. The Council has maintained its general fund (GF) reserve at a steady level, increasing from £9.1m to £9.6m (£0.5m increase due to underspend in the revenue budget). The Council's level of earmarked reserves since 2020/21 have begun to decline, recognising these are set aside for future pressures that are now arising, such as the resilience reserves having been used to fund overspends and cost pressures such as the children's social care service improvements. At the time of the original draft of this report in February 2023 the Council was projecting an in year overspend of £9.1m that would have placed further pressure on the level of reserves. Since then, the financial position for 2022/23 has improved with the draft financial statements for 2022/23 report an overspend in 2022/23 of £5.6m

The Council's specific earmarked reserves totalled £96.5m on 31 March 2022 (including £9.4m of School balances and £23.1m grant funding carried forward to 2022/23) and is estimated to be £67.8m at the end of 2022/23.

Level of Reserves continued

The level of reserves and expected movement in reserves were set out in the MTFS as part of the annual budget setting process and were reported to Cabinet. The Chief Finance Officer completed his review of the reserves and concluded within the Section 25 Statement, that the balances held remain reasonable and prudent in addressing some of the current and future challenges.

The second chart opposite illustrates the Councils general fund reserves and non-schools earmarked reserves - rated as a percentage of net service revenue of expenditure. The Council is above average at 55% compared to other similar councils.

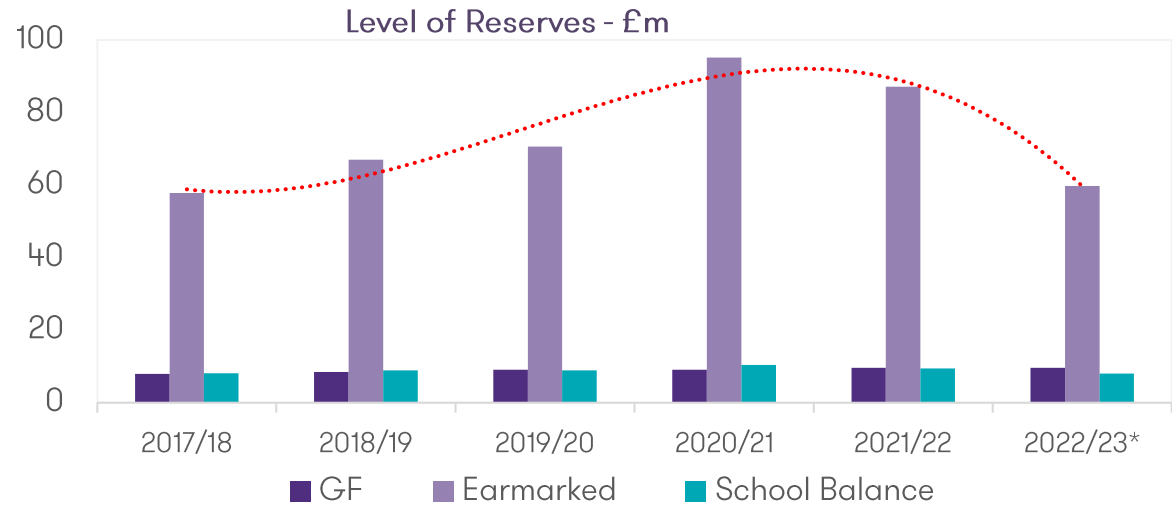
Overall, we consider that the Council has sufficient levels of reserves to meet existing financial pressures.

Auditor judgment

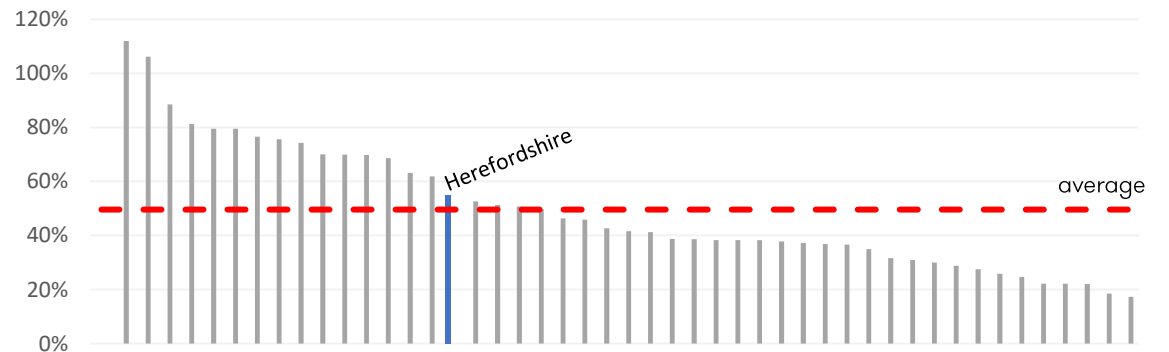
The Council achieved an underspend of £0.54m against its annual 2021/22 budget of £161m, after receiving COVID-19 funding of £4.79m. The greatest pressure within year was within the Children’s Young People and Family Services which was overspent by £4.4m. Despite this, financial pressures remain and if not carefully managed will adversely impact on financial sustainability into the medium term. Specifically, the draft financial statements for 2022/23 report an overspend in 2022/23 of £5.6m. There is also a budget gap of £15.8 from 2024/25 to 2026/27.

We note that, unlike a number of other councils across England the Council has not accumulated a deficit balance within its Dedicated Schools Grant (DSG), within its high needs block (special educational needs and disability) and continues to actively manage this risk to prevent the entering a deficit.

We have not identified any risks of significant weaknesses in arrangements as part of our work on financial sustainability or improvement recommendations and consider that, subject to continued careful financial management, the Council has sufficient reserves to cover this overspend and mitigate against the uncertainty in the short to medium term.



General fund and non-schools earmarked general fund reserves as a % of net service revenue expenditure 2021/22



Governance



We considered how the Council:

- monitors and assesses risk, gains assurance over the effective operation of internal controls and arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- Demonstrates leadership and governance and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, meets legislative/regulatory requirements) and where it procures and commissions services.

Leadership

The Council appointed a new Chief Executive in 2020/21 and during 2021/22 the leadership team has stabilised as interim director posts have been replaced by permanent appointments.

During 2021/22 the Chief Executive conducted a restructure of the senior leadership team. The following appointments have been made:

- Children and Young People Director
- Economy and Environment Director
- Community Wellbeing Director
- Director of Governance and Legal Services.

As a result a number of the senior leadership are new to post and time will inevitably be needed for this new team to deliver on its priorities. The Chief Executive and his Corporate Leadership Team are committed to developing the culture, to move away from silo working and to create a collaborative leadership team, a one Council culture and way of working.

The high staff vacancy rate within the Children and Young People Directorate remains a real concern, resulting in the Council continuing to rely on costly temporary and agency staff. This situation has been compounded by staff leaving following the adverse court judgement and recent Ofsted inspection.

The Children's Commissioner's report has raised the issue that in her view the Council does not currently have the capacity and capability to improve children's services in a reasonable timeframe. The Commissioner has recommended that the leadership team of the children's services should be strengthened to ensure that the pace of improvement increases rapidly in line with its agreed improvement plan.

The Children's Commissioner has also raised concerns about the lack of strategic planning and that partnership working is very under-developed. This included the Children and Young People's partnership having only just met for the first time in over a year and the safeguarding partnership being ineffective in addressing key concerns.

Our findings along with those of the Children's Commissioner indicate that the Council has made limited progress in addressing the weaknesses within the Directorate and as a result the Council is failing to meet the statutory needs of children in its care. This remains a significant weakness in arrangements in 2021/22.

Risk management

The Council has a Risk Management Plan (RMP) that sets out how risks are identified, assessed for likelihood, addressed, monitored and reported within risk registers.

In 2021/22 the Council reported risk registers at service, directorate and at corporate level. The RMP was reviewed in July 2022, in line with the Council's approach to review the RMP annually. The Corporate Risk Register was reviewed quarterly by the Audit and Governance Committee.

In 2021/22 the Council's Internal Auditor's, South West Audit Partnership (SWAP), undertook a high-level corporate review of risk maturity, this review did not identify any significant weaknesses, but did identify that risk management should be further improved and there remains a need to embed risk management across the Council. A more detailed risk management audit will be undertaken by SWAP in 2022/23.

The Council should therefore continue to look to strengthen this area and action the recommendation set out on page 23, relating to assessing the risks in relation to contracting with a dormant company. However, overall, we consider the arrangements in place to be adequate.

Maintaining standards and internal controls

In 2021/22 there was no evidence of significant non-compliance with the body's constitution. We are not aware of any breaches of legislation or regulatory standards during the year.

The Internal Audit function, SWAP confirmed in their Annual Opinion Report (2021/22) that there were no areas of significant corporate risk reported during the year.

Internal Audit did, however, report that the Hereford City Centre Transport Package (HCCTP) was an area of concern with control weaknesses identified in how it operates. SWAP undertook a special investigation in January 2022 of the HCCTP to review compliance with the recommendations made on capital projects following an earlier audit in 2017/18 (Blue School House). SWAP concluded that budget monitoring arrangements were inadequate, together with a poor project governance structure and lack of escalation of key project issues. No evidence was provided to show the status of priority actions that followed from the investigation. The review raised 11 recommendations, of which one was priority 1 (findings are fundamental and require immediate action) and eight priority 2 (important and needs to be resolved by management). It is our understanding that these recommendations remain unresolved and an update has not been provided to the Audit and Governance Committee

Learning from past weaknesses and following-up on past actions

As part of our 2021/22 VFM planning processes we identified a risk of significant weakness that the Council may not be learning or following-up and completing actions from past reviews and recommendations.

We considered how the Council has responded to significant weaknesses and the key recommendations raised in our previous report (issued in April 2022), changes in arrangements as well as the following reviews:

- Blue School House project
- Hereford City Centre Transport Package (HCCTP)
- Safeguarding Peer on Peer (now known as child on child) review.

The Council has strengthened its Project Management Office (PMO) to ensure past actions are not repeated, to address previously identified control weaknesses and apply lessons learnt to new projects. The PMO should ensure a consistent approach is adopted to addressing weaknesses and agreed actions are implemented. The PMO now tracks and monitors progress of both major capital projects but also key strategies and improvement reviews. The PMO provides monthly monitoring reports to the Executive Programme Board, which includes all Corporate Leadership Team members except the Chief Executive on cost and delivery. This has enabled the Council to separate its operational requirements from the assurance role.

The HCCTP review undertaken by Internal Audit in January 2022 also included consideration of compliance with the Blue School House recommendations, raised by the Council following an internal review in 2017. SWAP concluded that although there are some differences in the findings between the HCCTP review and the Blue School House findings and agreed actions there were strong similarities that can be seen through the audits since and including the Blue School House Refurbishment Investigation as follows:

- insufficient or clear audit trail to outline how budget figures have been derived and what budget figures are based on.
- insufficient detail and/or information to be included in governance decisions to ensure informed decision making takes place.
- a lack of robust budget monitoring and clarity on financial position.
- poor governance in relation to compensation events and increases in costs through the tender and contract award processes.
- insufficient recording in minutes and tracking of actions across the project governance structure, and
- lack of escalation of key project events/issues.

This illustrates that there were lessons to be learnt from the Blue School House project that could have been applied to the HCCTP project.

Learning from past weaknesses and following-up on past actions continued

In March 2016 there was an alleged child on child sexual assault incident between two pupils who both attended the same school in Herefordshire. Following complaints received an investigation was undertaken in February 2017. This review was published in April 2017 and was released to the School and the Council. The findings and recommendations were not shared by the Council with other schools within Herefordshire, which were subsequently considered to be a weakness in arrangements and is an example of a missed opportunity of the Council not learning from previous mistakes and recommendations issued by others.

Further reviews were undertaken by the Children and Young People Scrutiny Commission. These reviews also led to a further external independent review that was commissioned in December 2020, with the terms of reference agreed in January 2021 and concluded in November 2022. We understand that the work took some time to conclude due to the complexity of the issues involved.

A key aim of the latest review was to assess the Council's handling of child on child sexual abuse allegations referred to its Multi-Agency Safeguarding Hub (MASH) in its schools since 2017, and what learning should it now embed into its processes in its engagement with schools, parents, pupils, its community and third parties when dealing with child on child abuse cases in Herefordshire schools.

The Leader, Deputy Leader, Cabinet Member Children and Families and Statutory Officers (S151 and Monitoring Officer) received a copy of the independent report and were updated by Chief Executive shortly after in November 2022. The report was also subsequently shared with the chair of the Children's Services Scrutiny Committee on 13 December 2022, at which it was confirmed that the Children's Commissioner considered the Council guidance issued to schools in respect of child on child abuse to be satisfactory. Further key members were also consulted and we understand that the Council that the Chief Executive intends to collate the feedback and consider the lessons learnt. Based on these findings we recognise that steps have been taken to strengthen processes in relation to child on child abuse.

Whilst, we recognise that the pace of change needs to increase no other significant issues have arisen in 2021/22 and based on these findings we do not consider this to be a significant weakness in arrangements in 2021/22 and have raised an improvement recommendation on page 18.

Effectiveness of the Audit and Governance Committee

The effectiveness of an audit committee is dependent on several factors, including the role of the chair, attendance of members, their level of training, and their commitment to their responsibilities. In 2021/22, there was a good level of attendance by members at Audit and Governance Committee meetings. Training included member training and specific member development training. We, as your external auditors attend all Audit and Governance Committees and overall consider it to be fit for purpose. However, there are areas for improvement as set out below.

The Audit and Governance Committee does not have a single record of all external regulator and Internal Audit priority recommendations. Internal Audit recommendations are monitored but those raised by external audit are not.

We are of the opinion that the Council's Audit and Governance Committee effectiveness could be further strengthened through the appointment of one or more independent members who could bring increased objectivity, expertise and accountability to help the committee make decisions that yield better outcomes for the Council.

During the year and as at January 2023, the Council's Audit and Governance Committee consisted of seven councillors, it did not include any independent members. The Chartered Institute of Public Finance and Accountancy (CIPFA) in its recent statement (May 2022) on Audit Committees in Local Authorities in England, recommend that each authority audit committee should include at least two co-opted independent members. This builds on Sir Tony Redmond's 2020 Independent Review into the *Oversight of Local Audit and the Transparency of Local Authority Financial Reporting* which recommended that local authorities appoint at least one independent member to audit committees.

Budget setting, control and monitoring

The 2022/23 budget was first reported to Cabinet in January 2022, along with an accompanying 3-year Medium Term Financial Strategy (MTFS) plan, and treasury management and capital strategies. The budget setting process commenced with a review of the base budgets at directorate levels and identification of cost pressures, followed by discussions with the budget holders. These budgets were then scrutinised by the Corporate Leadership Team, who were also tasked with identifying the Council's underlying savings requirement.

The approved budget for 2022/23 included information on budget pressures faced by the Council, prior year outturn as well as MTFS strategies considering various scenarios.

The budget setting process involved external consultation with stakeholders as well as a variety of debates and internal discussions during the budget Council meeting. The 2022/23 Cabinet's budget recommendations were provided to Full Council for approval in February 2022.

Quarterly budget monitoring reports were provided to Cabinet following budget holders review of financial performance and risks during the year. The reports also included appendices which included detailed narrative to explain variations.

Our review of the governance arrangements in relation to budget setting, control and monitoring has not identified any risks of significant weakness in the 2021/22 financial year.

Settlement agreements

In 2020/21 we recommended to that the Council should maintain a central record of confidential decisions relating to settlement agreements. The aim of such a record would have been to ensure that corporate knowledge was maintained regardless of changes in senior officers. The Council have reviewed existed arrangements and have concluded that a central record is not required, and existing records provide sufficient evidence and that all information to support a decision is retained in the individual's HR file.

Auditor judgement

We found no evidence of significant weaknesses in the Council's governance arrangements for ensuring that it made informed decisions and properly managed its risks, although we have identified two areas for improvement. The Council needs:

- to make more progress in implementing the change required to bring about the desired improvements in respect of the key recommendations
- consider appointing independent members to the Audit and Governance Committee.

Improvement recommendations



Governance

Improvement Recommendation 4

The Council needs to make more progress in implementing the change required to bring about the desired improvements in respect of the key recommendations. It should ensure:

- rigorous processes are in place so that recommendations are completed fully and on a timely basis
- a single record of all external regulator and Internal Audit priority recommendations so that, amongst others, the Audit and Governance Committee can proactively monitor implementation.

Why/impact

A mature organisation ensures action is taken to address failures in service provision and learns from previous mistakes so that improvements are made and the likelihood of similar incidents occurring to reduce.

Auditor judgement

The Council’s processes could be improved to ensure action is taken at pace and to enable others learn from past mistakes and issues.

Summary findings

Not all recommendations raised by regulators as well as by internal and external audit are being actioned in an effective and timely manner. The Children’s Commissioner concluded that the Children’s Improvement Board has not been robust enough to be able to assist in the acceleration of improvements. The issues facing the Children’s Service have been long standing and the steps taken to date have not addressed previous identified failings. The Commissioner has concluded that the Council does not currently have the capacity and capability to improve children’s services in a reasonable timeframe.

Management Comments

We will review arrangements for 2023/24 to ensure that the completion of improvement recommendations from external and internal sources can be monitored proactively.



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The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Governance

Improvement Recommendation 5

The Council should consider appointing independent members to the Audit and Governance Committee.

Why/impact

Independent members can provide additional capacity, skills and knowledge

Auditor judgement

The Audit and Governance Committee would benefit from independent members.

Summary findings

The current committee does not have any independent members.

Management Comments

The Audit & Governance Committee will consider the appointment of independent members for 2023/24.



The range of recommendations that external auditors can make is explained in Appendix C

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

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Children's Social Care Services

Last year we reported that since June 2018, the Council's Children's Social Care services have been assessed by Ofsted as 'requires improvement'. Limited progress was made in addressing the improvement areas and in March 2021 Mr Justice Keehan issued a court judgment in relation to a case which involved four children placed in foster care. The judgment found significant failings over an extended period in respect of how the Council supported the children, the foster parents and the birth family of the children in care. Subsequent to this judgment the Council received a non-statutory improvement notice from the DfE in May 2021.

In July 2022 Ofsted undertook a detailed inspection and the service received an overall rating of 'Inadequate' and a statutory improvement notice was issued. This assessment was in line with the findings of Ofsted's earlier focused visits which concluded that the Council had made little progress in improving the quality of practice for children in need and those subject to child protection planning since the inspection in June 2018.

The Council has established an improvement board which has met regularly and has been chaired by the Department for Education Advisor. The Children's Commissioner concluded that the Board has not been robust enough to be able to assist in the acceleration of improvements. The issues facing the Children's Service have been long standing and the steps taken to date have not addressed these. The Commissioner has concluded that the Council does not currently have the capacity and capability to improve children's services in a reasonable timeframe.

This represents a further deterioration in arrangements in the area of children's services since our review last year.

We consider the Council's failure to meet the statutory needs of children in its care and the failure to make improvements with sufficient speed to be a significant weakness in arrangements for the audit year 2021/22.

On page 14 we have commented on the governance arrangements around leadership and partnerships within the Children's Social Care Service and the impact they have had on the Council's ability to implement change.

Performance management

The Council set out its vision and objectives within its County Plan. A five year plan that was supported by a delivery plan which included the objectives against which the County Plan was monitored.

Performance against these objectives was monitored and reported to Cabinet on a quarterly basis. However, we identified that the objectives within the County Plan and supporting delivery plan have not been updated to reflect changes in service delivery. For example, those indicators relating to children's services do not reflect the Court Judgement or the latest Ofsted inspection and do not provide the reader with an overall reflection of the Children's social care service.

Although we recognise that the Children's Services Improvement Plan was reported to Cabinet at the same meeting as the County Plan Delivery Plan Failure (February 2022), the Delivery Plan objectives were not updated to take into account that failures within the Children's Service would have an impact on the objectives of the Delivery Plan.

The Children's Commissioner's report also reported that the ambitions of the County Plan were not being realised. This failure and the inadequate Ofsted rating is not evident from the performance measures currently being used to assess performance against the County Plan Delivery Plan.

Benchmarking

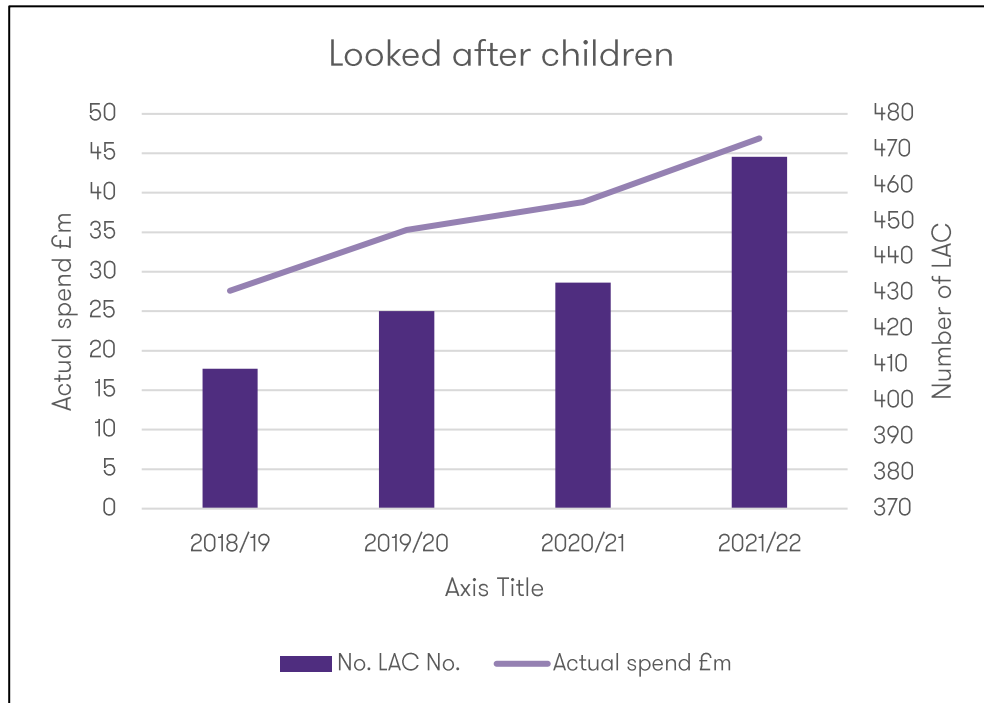
Benchmarking and comparing the Council’s performance to others enables it to identify both areas of good performance but also those areas where performance could be improved. As part of our review we discussed a range of indicators produced by our management tool, ‘CFO Insights’. The Council has continued to use benchmarking to assess, amongst other things, its financial resilience and confirm the appropriateness of its level of reserves.

The CFO Insights indicators are based on 2022/23 budget information and compared the unit costs for a range of services. The indicators identified the following areas where the unit costs were high in comparison to other unitary authorities:

- Children’s social care
- Planning and development control services.

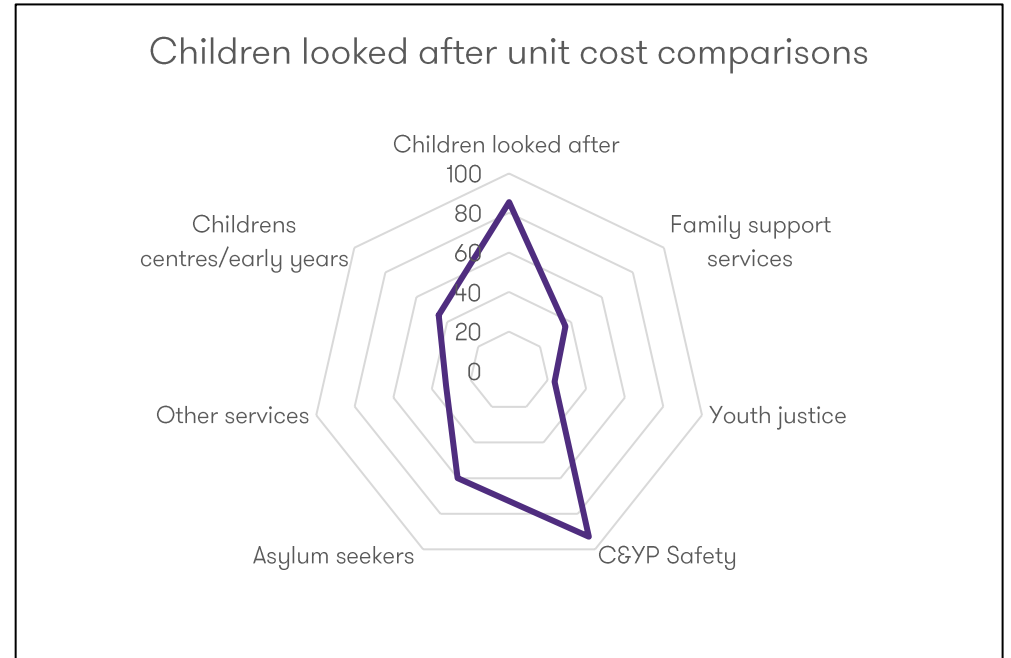
Children’s social care

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Children’s social care remains very high cost and is as expected due to the high numbers of high cost looked after children and additional funds having been allocated to improve this service area following the adverse court judgement and inadequate Ofsted rating. The chart opposite illustrates the increasing numbers and costs.

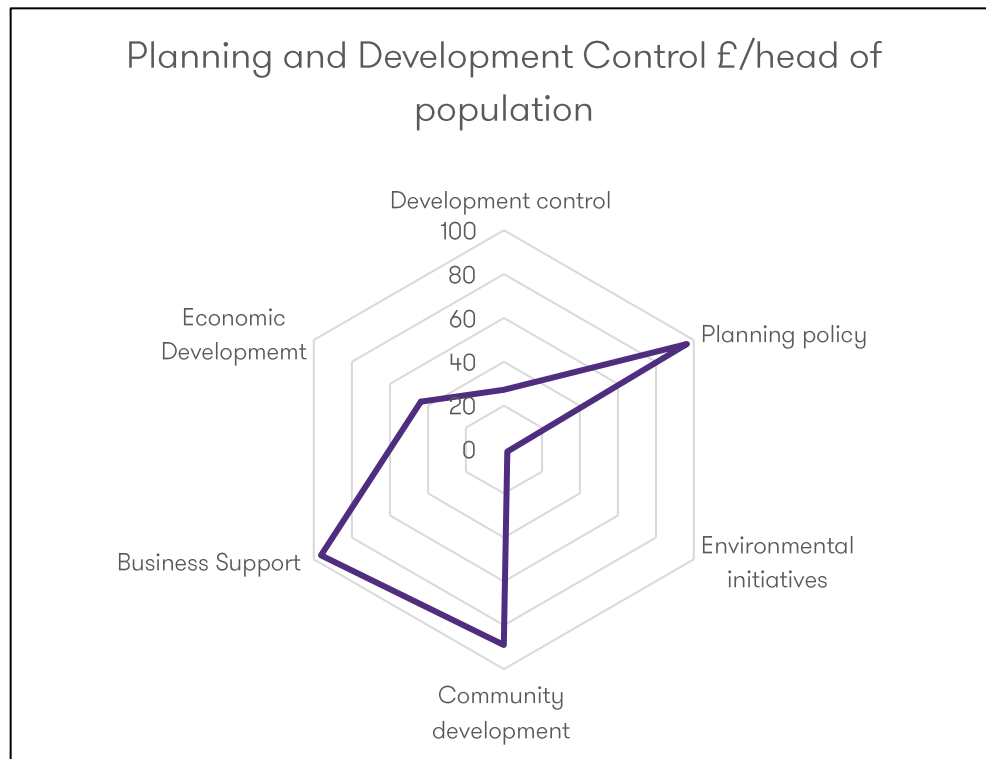
The chart below illustrate the issue within Children’s Social care. The rate of improvement has been raised as a concern by Children’s Commissioner, as progress has been slow with limited outcomes for children.



On the chart above 50 represents the group median. The group in this case is all unitary councils. If a measure is closer to the outside of the chart it would be classed as 'very high cost', whereas if the line is closer to zero, then it would be classed as 'very low cost' in comparison to the group. Indicating that children looked after and children and young people safety are very high costs.

Planning and development control

The high unit costs for planning and development control are attributable by the Council, to three areas, planning policy, community development and business support. We understand that the Council has explore why these areas are high cost in comparison to others and are attributable to additional planning costs attributable to phosphate contamination.



On the chart above 50 represents the group median. The group in this case is all unitary councils. If a measure is closer to the outside of the chart it would be classed as 'very high cost', whereas if the line is closer to zero, then it would be classed as 'very low cost' in comparison to the group. Indicating that business support, planning policy and community develop are very high cost.

Procurement

The Council current procurement strategy which is available on the Council's website is dated 2018. The Council has developed a revised strategy 2022-25, which has been reviewed and ratified by Cabinet. We are not aware of any significant commercial or procurement undertakings during 2021/22, although the Council has been collaborating with Worcestershire County Council to develop a Joint Municipal Waste Strategy for Herefordshire and Worcestershire 2021 to 2035. The procurement for this new strategy will commence in 2022/23.

In order to remain compliant with procurement legislation the Council should follow its procurement rules and re-tender in line with current legislation. If these rules are not followed then this would constitute a procurement breach. The number of breaches should be recorded and formally reported to ensure compliance with procurement rules.

The Constitution sets out that exemptions from the Contract Procedure Rules should be by exception only and should be documented and completed in consultation with commercial, finance and legal services.

In 2022/23 the Council granted 40 contract waivers compared to 46 recorded in 2021/22. The Council has agreed procedures which should be followed and these procedures were documented within the Council's contract procedure rules. There were no significant instances of non-compliance within 2022/23.

Contract management

In 2020/21 we identified a significant weakness in this area and raised a key recommendation relating to the management of the Council's public realm and facilities contracts with Balfour Beatty. This was following concerns raised in a number of reviews under taken by the Interim Capital Projects Director and Internal Audit.

Cabinet were formally made aware of the concerns raised within these internal reviews in July 2021. The Council then agreed a number of its own recommendations and actions. Cabinet also agreed the establishment of the Major Contracts Improvement Board to resource and facilitate the required improvements in contract management and commissioning, to strengthen the corporate centre and to provide capacity and support.

An improvement plan was developed in March 2022, seven months after it was agreed to establish an improvement board. The improvement plan is available on the Council's website.

Contract management continued

The Major Contract Improvement Board, an internal joint officer and member board is responsible for monitoring performance and progress against the improvement activities. Progress is not being reported to a formal member committee or Cabinet.

In 2022/23, outside our year of review the Major Contracts Improvement Board met monthly between April 2022 and September 2022. The last meeting was held in September 2022 and included a Close Out Statement on the Major Contract Improvement Plan which showed that out of 39 actions across 11 improvement plans, 27 actions have been fully completed (70%), while the remaining 12 (30%) are in progress with expected completion dates of October 2022. The remaining actions are expected to be completed in 2023/24 when additional resources are available.

In our view, as progress to address this significant weakness were initiated late in 2021/22, the significant weakness in contract management arrangements for 2021/22 remains.

Balfour Beatty Living Places Limited

Last year, in addition to the concerns relating to contract management, we reported that the public realm contract is held with a dormant company Balfour Beatty Living Places Limited (BBLP). This company was dormant at the time the contract was awarded in 2013, have continued throughout 2021/22 and as at the date of drafting this report BBLP remains registered as a dormant company at Companies House. Contract payments continue to be made to BBLP with invoices showing the company name of the dormant company.

Current management at the Council became aware that BBLP was a dormant company in January 2021. In 2020/21 no action was taken by the Council to better understand the risks posed to the Council as a result of this contractual arrangement and what if any mitigating actions might be required.

The Council only began to take action at the end of 2021/22, when legal advice was obtained in March 2022 following our enquiries. This advice included the following statement: - *‘Our overall view is that the Council is not fundamentally legally exposed and the Contract is not invalidated by these arrangements, but we maintain the view that these arrangements are of dubious validity and could cause issues in the event that there was a major dispute between the parties.’*

In March 2022 the Council wrote to BBLP asking them to either:

- commence trading through BBLP; or
- novate the public realm contract to BB Group.

The Council subsequently received correspondence from BBLP which explained that BBLP is an agency company of Balfour Beatty Group and *"when contracting with an agency company, a customer is contracting with Balfour Beatty Group Ltd as a legal matter"*.

The Council were also informed that they were made aware of this in the initial contract submission. This letter provided the submission made by BBLP in 2012 as part of the PQQ process and a letter from the Company secretary dated 4 November 2020 setting out the legal status of the agency company structure. Balfour Beatty Group explained that BBLP is an agency company which enables it to *‘sign contracts, place orders and otherwise operate like any other conventional trading company, the key difference being that they do so for and on behalf of the group’* and *‘can be sued, in both civil and criminal litigation’*.

This correspondence was not shared with the Council’s legal advisors and further advice has not been sought. Whilst the information provided by BBLP may have legitimate standing, the Council has not formally confirmed this. Council Officers have verbally confirmed that in their view they do not consider this arrangement to be a risk to the Council and intend to take no further action with regards to the dormant company. However, this decision has not been documented and we remained concerned that in the absence of a proper documented risk assessment and conclusion on whether any further action is required that the Council remains exposed should a major dispute occur. As a minimum we would expect that legal advice was sought as to the view posed by Balfour Beatty Group and the decision and risks to be documented and presented to Cabinet.

Based on these findings we consider that the Council’s contract management arrangements remain a significant weakness in arrangements, as it has not sought further third party legal advice, documented the potential risks and formally communicated this officer decision to Cabinet.

Contract procedure rule

In 2020/21 we identified that the Council's existing contract procedure rules did not cover the evaluation of tenders and the range of due diligence required of potential suppliers. We recommend that the contract procedure rules, documented within the Constitution, should be updated to include contract evaluation and the extent of appraisal of potential suppliers (due diligence) that should be undertaken before awarding a contract. As a result, the contract procedure rules were updated in July 2022 setting out the additional due diligence required including Companies House searches, Fraud checks and credit history. However, for the year under review these arrangements were not in place.

Performance managing subsidiaries

Hoople Ltd is a joint venture (JV) subsidiary company of the Council created in April 2011 to deliver business support services to clients across the public and private sector. In 2020/21 Hoople Ltd was wholly owned by the Council and Wye Valley NHS Trust, the Council being the majority shareholder.

Performance monitoring and ensuring appropriate governance over a subsidiary requires a different approach, as the JV should be able to operate commercially whilst delivering its services in line with any agreed contract or service level agreement.

In 2020/21 we recommended that the Council should strengthen the performance monitoring arrangements for Hoople Ltd to include formal reporting to members, such as an annual report. The arrangements remained the same in 2021/22, but in 2022/23 the Council began reporting on the financial performance of Hoople within its quarterly budget performance reports to Cabinet.

However, Hoople's performance in relation to the service it delivers which is covered by Service Level Agreements (SLAs) has not yet been reported to Cabinet. We understand that this is reviewed by individual service managers. In order to ensure an appropriate level of performance is delivered and members are aware of how Hoople is performing we recommend that the Council should also consider reporting performance inline with key performance indicators within the SLAs to Cabinet.

During 2021/22 the responsibility for overseeing the Council's interests and shareholder responsibility sat with the Council's Audit and Governance Committee. However, throughout 2021/22 the Council's Audit and Governance Committee did not review or consider Hoople's performance, neither were scrutiny involved. Based on these arrangements it is unclear who fulfilled the shareholder function during 2021/22. In early 2023 the Council has improved arrangements and established a shareholder committee.

The Council's S151 Officer and the Leader of the Council, are members of the Hoople Board and receive regular reports on Hoople. Specifically the company's trading position, financial position and key risks. In our experience, members and officers of the Council who are also appointed directors of a separate legal entity can present a risk of conflict of interest. This arrangement makes it difficult for the Council to challenge the commercial operations of the company and ensure that the company operates in the best interest of the Council.

Conflicts of interest can arise from acting as a director of the company and also when acting as a councillor or officer of the company. As a result we have raised an improvement recommendation on page 27.

Significant partnerships

In order to improve the Council's arrangements relating to significant partnerships the Council has defined significant partnerships, developed a partnership framework and introduced a partnership register. Both the partnership framework and register are available on the Council's website.

The Council has entered into the following significant partnership in 2021/22 and updates have been provided to Cabinet:

- the Integrated Care System work with NHS and Public Health partners to implement for Herefordshire and Worcestershire.
- Herefordshire Climate and Nature Partnership - which focuses on six areas: housing and buildings; energy; transport; food consumption; farming and land use; and waste management
- Herefordshire Stronger Towns Partnership was awarded £22.4m from the Government's Towns Fund for a range of projects that support post-covid recovery and enhance economic growth. The programme is being delivered through a Towns Fund Board, the Stronger Hereford Board of which the Council is a key partner and the accountable body.

Significant partnerships continued

In 2020/21 the Council introduced a self assessment for each partnerships as part of the draft Annual Governance Statement for 2020/21. These self assessments were completed by the service departments and reviewed by the Audit and Governance Committee in July and September 2021. Whilst the self assessment demonstrated the Council's commitment to improving its understanding and partnership arrangements it demonstrated, in our opinion, a number of areas for improvement and we raised the following improvement recommendation:

The Council should review and improve the content of the significant partnerships' self assessment, both the questions asked and the replies received and consider:

- documenting the strategic objectives to which they contribute
- ensure detailed responses are provided
- define why the partnership is a significant partnership in line with the Council's own definition.

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This recommendation remains outstanding.

Auditor judgement

In our 2020/21 report which was reported to Audit and Governance Committee in May 2022 we raised three areas of significant weakness and three corresponding key recommendations. These significant weaknesses and key recommendations remain valid for 2021/22.

1. The Council's failure to meet the statutory needs of children in its care. This is evident from the findings in the court judgment issued in March 2022, the lack of progress made since Ofsted inspected in 2018 and the 'inadequate' Ofsted inspection rating provided in July 2022.
2. The Council's lack of effective contract management arrangements for its public realm and facilities management contracts, to enable it to hold its contractor to account, is a significant weakness in arrangements.
3. The Council's continued contract management arrangements with Balfour Beatty Living Places Limited (BBLP), a dormant company and the Council's failure to seek further third party legal advice, document its decision to continue to contract with BBLP, consideration of the risks this might continue to pose and make Cabinet aware of this decision.



Improvement recommendations



Improving economy, efficiency and effectiveness

Improvement Recommendation 6

The Council should review and consider updating the indicators used to assess delivery and progress on ambitions and objectives within the County Plan 2020-2024 and its supporting delivery plan to ensure they take account of the Children's Services Improvement Plan.

Why/impact

Performance objectives do not appear to take account of other key priorities which have occurred after the objectives were first agreed.

Auditor judgement

Currently performance monitoring of the County Plan Delivery Plan does not directly take account of the improvements required within the Children's Improvement Plan.

Summary findings

The Council separately reports performance against its Children's Improvement Plan and its County Plan Delivery Plan to Cabinet. Although both items are reported at the same time the County Plan's Delivery Plan does not reflect how failures within the Children's Services may impact on the Delivery Plan objectives and indicators.

The Delivery plan indicators relating to children's services do not reflect the Court Judgement and latest Ofsted inspection and do not provide the reader with an overall reflection of the Children's social care service.

Management Comments

We will review arrangements from 2023/24 to ensure that routine monitoring and reporting includes performance against the Children's Improvement Plan.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

Improvement Recommendation 7

The Council should review its governance arrangements for Hoople Ltd considering the role of:

- the shareholder
- members and officers on the company board to ensure the scope for conflicts of interest is minimised to ensure there is a clear divide between those responsible for holding them to account and or overseeing them
- scrutiny.

Why/impact

Hoople may not be effectively held to account and conflicts of interest may occur.

Auditor judgement

The arrangements in place during 2021/22 did not ensure members had oversight of Hoople.

Summary findings

The Hoople Board includes the Council's S151 Officer and the Leader of the Council. The November 2022 report to Cabinet indicated that the Council gains assurance from these two individuals' providing management with regular reports on the company's trading position, financial position and key risks as the membership. This might cause a conflict of interest.

During 2021/22 the responsibility for overseeing the Council's interests and shareholder responsibility sat with the Council's Audit and Governance Committee. However, throughout 2021/22 the Council's Audit and Governance Committee did not review or consider Hoople's performance, neither were scrutiny involved. Based on these arrangements it is unclear who fulfilled the shareholder function during 2021/22. In early 2023 the Council has improved arrangements and established a shareholder committee.

Management Comments

The Shareholder Committee was established by resolution of Cabinet on 12 January 2023. Following guidance from external lawyers, the creation of a formal member led Shareholder Committee will provide robust, structured governance arrangements for the council as shareholder and enable greater oversight of the council's interest in the company from 2023/24.



The range of recommendations that external auditors can make is explained in Appendix C.

Follow-up of previous key recommendations

Recommendation	Type	Date raised	Progress to date	Addressed	Further action?
<p>1 Key recommendation – children’s The Council should continue to work with the Department for Education to improve its Children’s Social Care Services.</p>	Key	April 2022	<p>In June 2018 the Council’s Children’s Social Care services were reported by Ofsted as ‘requires improvement’. Limited progress had been made and in March 2021 Mr Justice Keehan issued a court judgment in relation to a case which involved four children placed in foster care.</p> <p>In July 2022 Ofsted undertook a detailed inspection and the service received an overall rating of ‘Inadequate’.</p> <p>Performance has deteriorated.</p>	No	<p>Yes – recommendations have been raised by the Children’s Commissioner.</p> <p>The Council needs to improve the quality of the service provided.</p>
<p>2 Key recommendation – contract management The Council should progress the actions within its major contracts’ improvement plan, and to ensure delivery we recommend that performance against this plan should be reported to Cabinet.</p>	Key	April 2022	<p>Limited progress in 2021/22 as the Major Contracts Improvement Board (MCIB) was not established until April 2022.</p> <p>The MCIB concluded in September 2022 with the majority of actions noted as complete, but a number of actions requiring funding before they can be completed.</p> <p>AECOM report completed in 2022/23 which concluded that the HCCTP contract - <i>had not been managed fully in accordance with the contract and in line with good NEC project management practice.</i></p>	No	Completion of the outstanding actions and consideration of application to other major contracts.

Follow-up of previous key recommendations

Recommendation	Type	Date raised	Progress to date	Addressed	Further action?
<p>3 Key recommendation – dormant company</p> <p>The Council should seek to regularise its contractual arrangements for its public realm contract with Balfour Beatty Living Places Limited and ensure it:</p> <ul style="list-style-type: none"> obtains further legal advice beyond that already obtained to clarify the validity of the current contract arrangements fully understands the implications of contracting and paying a dormant company undertakes appropriate due diligence before engaging in any major contracts; and reviews existing contracts to ensure they are operating within appropriate legal standards and internal policies. 	Key	April 2022	<p>The Council obtained legal advice in March 2022. This advice provided the following statement: - <i>‘Our overall view is that the Council is not fundamentally legally exposed and the Contract is not invalidated by these arrangements, but we maintain the view that these arrangements are of dubious validity and could cause issues in the event that there was a major dispute between the parties.’</i></p> <p>In March 2022 the Council wrote to BBLP asking them to either:</p> <ul style="list-style-type: none"> commence trading through BBLP; or novate the public realm contract to BB Group. <p>The Council subsequently received correspondence from BBLP which explained that BBLP is an agency company of Balfour Beatty Group and "when contracting with an agency company, a customer is contracting with Balfour Beatty Group Ltd as a legal matter". The Council were also informed that they were made aware of this in the contract submission. This letter provided the submission made by BBLP in 2012 as part of the PQQ process and a letter from the Company secretary dated 4 November 2020 setting out the legal status of the agency company structure. Balfour Beatty Group explained that BBLP is an agency company which enables it to <i>‘sign contracts, place orders and otherwise operate like any other conventional trading company, the key difference being that they do so for and on behalf of the group’</i> and <i>‘can be sued, in both civil and criminal litigation’</i>.</p> <p>This correspondence was not shared with the Council’s legal advisors and further advice has not been sought, whilst the information provided by BBLP may have legitimate standing, the Council has not formally confirmed this. Council Officers have verbally confirmed that in their view they do not consider this arrangement to be a risk to the Council and intend to take no further action with regards to the dormant company. This decision has not been documented and there is no evidence that the Council is not exposed should a major dispute occur.</p>	No	<p>The Council should review its arrangements and document its decision and related risks if it plans to continue to contract with BBLP. The decision should be formally communicated and signed off by Cabinet.</p>

Follow-up of previous improvement recommendations

Recommendation	Type	Date raised	Progress to date	Addressed	Further action?
4 The Council should consider extending the use of benchmarking, in particular those areas which are high cost in comparison to others, such as highways and transport services.	Improvement	April 2022	The Council used benchmarking to assess its financial resilience and confirm its level of reserves, spend and performance of neighbouring and similar authorities.	Yes	Another improvement recommendation raised
5 The Council should review its Procurement and Commissioning Strategy, update it as necessary and ensure the actions are translated into a deliverable action plan. A mechanism against which progress against these deliverables can be monitored should then be implemented.	Improvement	April 2022	A new procurement strategy has been developed and now covers 2022-2025.	Yes	No
6 The Council should review and update the contract procedure rules, documented within the Constitution, to include contract evaluation and the extent of appraisal of potential suppliers (due diligence) that should be undertaken before awarding a contract.	Improvement	April 2022	The Contract procedure rules were updated in July 2022 setting out the additional due diligence required including Companies House searches, Fraud checks, credit history.	Yes	No
7 The Council should strengthen the performance monitoring arrangements for Hoople Ltd to include formal reporting to members, such as an annual report.	Improvement	April 2022	Performance was monitored and reported through (Service level Agreements (SLAs). Hoople's financial performance was reported to Cabinet in Quarter 2 2022/23 budget and performance report.	Partial	The Council should also consider reporting to Cabinet performance inline with key performance indicators as set out in the SLA.s.
8 The Council should review and improve the content of the significant partnerships' self assessment, both the questions asked and the replies received and consider: <ul style="list-style-type: none"> documenting the strategic objectives to which they contribute ensure detailed responses are provided define why the partnership is a significant partnership in line with the Council's own definition. 	Improvement	April 2022	These actions have not been addressed. The Council considers that its governance are appropriate and does not intend to implement this recommendation.	No	The Council does not plan any further action.

Follow-up of previous improvement recommendations

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Recommendation	Type	Date raised	Progress to date	Addressed?	Further action?
9 The Council should ensure that appropriate records are maintained for settlement agreements and an audit trail is established. We suggest a central record should be maintained which includes confidential decisions so that corporate knowledge is maintained regardless of changes in Senior Officers.	Improvement	April 2022	The Council have informed us that they have considered this recommendation and are of the view that appropriate records are held and do not consider that a central record is required.	No	The Council are of the view that no further action is required.
10 The corporate risk register should be updated to map each corporate risk to the relevant corporate objective.	Improvement	April 2022	Corporate risks within the corporate risk register have not been mapped to the corporate objectives.	No	Implement the original recommendation.
11 The Council should strengthen its financial planning. The Council should: <ul style="list-style-type: none"> increase the financial planning timeframe in the MTFS from one year to three or five years and ensure the longer horizon MTFS is reviewed and agreed by members introduce scenario and sensitivity analysis within the MTFS 	Improvement	April 2022	Financial planning timeframe in the MTFS increased from one year to three years for 2021/22 and 2022/23 and four-years from 2023/24; MTFS is reviewed and agreed by members; further analysis is not reported as part of the MTFS but part of internal working papers as informed by Council.	Yes	No
12 The Council should ensure narrative is provided to explain any slippage or shortfall in savings targets in the quarterly budget performance reports provided to Cabinet.	Improvement	April 2022	Narrative is provided to explain slippage or shortfall in savings targets for savings.	Yes	No

Follow-up of previous improvement recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
13 The Council should include its performance against budget for the Dedicated Schools Grant (DSG) within its quarterly Cabinet budget reports.	Improvement	April 2022	Unlike a number of other councils across England the Council has not accumulated a deficit balance within its Dedicated Schools Grant (DSG), within its high needs block (those with a disability or special education need). However, this information is not reported to Cabinet. Outstanding	No	Implement the original recommendation.
14 The Council should quantify the financial assumptions and risks within its MTFS and assess if the level of reserves is sufficient to meet these possible pressures.	Improvement	April 2022	This has been introduced within the budget for 2023/24.	Yes	No
15 The Council should develop more comprehensive and integrated workforce plans which support its recently developed workforce strategy.	Improvement	April 2022	Outstanding	No	Implement the original recommendation.
16 The Council should report capital outturn against the original capital budget and ensure this budget more accurately reflects the expect capital spend in year.	Improvement	April 2022	The quarterly reports to Cabinet provide detail of the original budget and the revised budget.	Yes	No
17 The Council should ensure that quarterly performance reports to Cabinet provide an explanation for slippage of the capital programme.	Improvement	April 2022	Narrative I provided within the quarterly reports to cabinet	Yes	No

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Appendices

Appendix A – Responsibilities of the Council

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

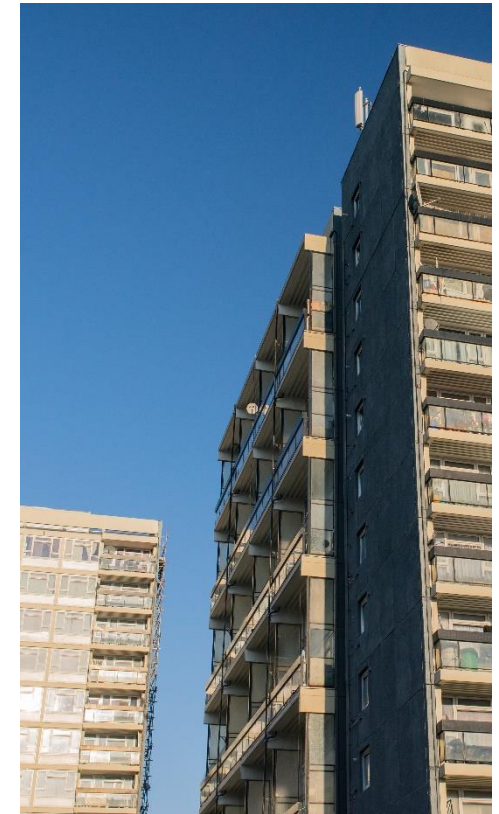
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
The Council's failure to meet the statutory needs of children in its care. Further details can be found on page 20.	We reviewed the Council's progress in this area including the Children's Commissioner report.	Significant weakness identified	Appropriate arrangements not in place, the key recommendation raised in 2020/21 remains outstanding.
The Council's lack of effective contract management arrangements for its public realm and facilities management contracts, to enable it to hold its contractor to account. Further details can be found on pages 22 and 23.	We reviewed the actions taken by the Council following the legal advice received and review the progress made since March 2021.	Significant weakness identified	Appropriate arrangements not in place, the key recommendation raised in 2020/21 remains outstanding.
The Council continues to contract with Balfour Beatty Living Places (BBLP) a dormant company. Further details can be found on page 23.	We reviewed the actions taken by the Council following the legal advice received and the progress made since March 2021.	Significant weakness identified	Appropriate arrangements not in place, the key recommendation raised in 2020/21 remains outstanding.

Appendix C – An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	Yes	Pages 29 and 30.
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	Pages 18, 19, 26, 27 and 28.



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Title of report: Whistleblowing Policy

Meeting: Audit and Governance Committee

Meeting date: Friday 23 June 2023

Report by: Senior Lawyer, Corporate Services

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

This report seeks to provide members with a revised Whistleblowing Policy for approval; this item was considered by the committee on 13 March 2023, with subsequent amendments highlighted in these papers.

Recommendation(s)

That:

- a) **Members agree the revised Whistleblowing Policy and associated guidance set out at Appendix A**

Alternative options

1. Not to agree the Whistleblowing Policy. This is not recommended as members have previously agreed that the policy is in need of revision.

Key considerations

2. At its meeting on 21 November 2022, members noted that there was a need to simplify the Whistleblowing Policy and provide further guidance for staff. The revised policy has been simplified and made clearer for both staff and managers to operate, and includes a checklist for managers on how they should deal with whistleblowing concerns.
3. The revised Policy also provides alternative routes for staff to raise whistleblowing concerns in the event that they do not want to discuss these with their manager; they can contact the Monitoring Officer direct and they are also signposted to the Council's fraud hotline if the matter

concerns financial irregularities, as well as external bodies. The Monitoring Officer is appointed by the Council and has a statutory duty under S5 Local Government & Housing Act 1989 to prepare a report to the Council in the event that they become aware of maladministration or any unlawful action on the part of the Council.

4. The revised policy also includes a provision to allow it to be used by staff at maintained schools, if they are unable to raise their concern within their own school. This is in accordance with guidance issued by the Department of Education.
5. Members were advised at their November meeting that external companies provided whistleblowing hotlines, and that this area would be explored. Costs were obtained from external providers, ranging from £1380-£4500 p.a. At its meeting in March 2023 members discussed the issue of external support to log and monitor whistleblowing cases, and agreed that this was not necessary for the amount of cases received, noting that external support could be brought in if required.
6. The Whistleblowing Policy now clearly highlights alternative avenues which whistle-blowers can use. The new Policy also provides that the Monitoring Officer must receive notification of all whistleblowing complaints, and this will allow for them to be tracked and reported centrally for the future.
7. Members received this report at their meeting in March 2023. Members supported the policy, but were concerned that the Unions (GMB, UNISON and Unite) had not responded to the consultation. Subsequent to that meeting, we have now received confirmation from Unison that they have no concerns with the policy.
8. Members additionally requested several minor changes which have been incorporated into the policy, and HR have been requested to add an additional question to the staff survey to find out how comfortable staff feel about using the policy. Staff will be made aware of the revised policy through the established communications channels e.g. the chief executive's weekly update to staff and via the intranet.
9. An internal audit of whistleblowing is currently underway, and this may bring further required changes to our processes. It will be reported through to the committee in the usual way.

Community impact

10. Herefordshire 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. It is essential that, as a whole, we can demonstrate the appropriateness of all our actions across all our activities and have mechanisms in place to encourage and enforce adherence to ethical values and respect the rule of law. The confidential reporting code is part of the council's governance arrangements and helps safeguard public funds. Periodic reviews to ensure the code remains current, fit for purpose and effective helps the council to meet the principles within its code of corporate governance.

Environmental impact

11. There are minimal environmental impacts in the Whistleblowing Policy though of course any environmental concerns can be raised under the policy.

Equality duty

12. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to;–

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

13. The revised Whistleblowing Policy fully complies with the public sector equality duty as all members of staff are able to raise a concern in a number of ways, and an equalities impact assessment is attached.

Resource implications

14. There are no resource implications to this revised policy.

Legal implications

15. Legal implications are set out in the body of this report.

Risk management

16. Failure to maintain a legally compliant whistle blowing policy could contravene employment law and leave the council open to challenge with associated financial penalties and bring the council into disrepute.

Consultees

17. All three unions (Unite, Unison and GMB) were advised of the review and asked for their views on any areas they thought need considering as part of the review. They have been provided with the draft policy for comment. As set out above, only Unison have responded.

Appendices

- A. Whistleblowing Policy with checklist and managers guidance
- B. Equalities Impact Assessment

Background papers

None

Section 5 – Whistleblowing Policy

5.1 Purpose

This policy is intended to cover concerns that fall outside the scope of other existing Council procedures (e.g. complaints procedures, safeguarding reporting and employment policies and procedures).

If something is troubling you, which you think we should know about or look into, please use this policy and the procedures below. If, however, you wish to make a complaint about your employment or how you have been treated, please use existing employment (HR) policies and procedures (e.g. grievance policy, which you can obtain from your manager or HR).

Whistleblowing arrangements are not intended to give you a further opportunity to pursue a grievance once other relevant employment procedures have been exhausted.

You should only consider raising concerns through Whistleblowing arrangements if:

- You have genuine reasons why you cannot use the above policies and procedures;
or
- You have reason to believe that these policies are failing or are not being properly applied; **and** in any case;
- There is a public interest aspect.

5.2 Scope

This policy applies to all those who work for Herefordshire Council, whether full time or part-time, employed or working through an agency. It also applies to staff working for Hoople and any other contractors that have adopted the Council's Whistleblowing Policy.

If you are an employee at a Council maintained school, then your school should have its own whistleblowing policy which you should use. However if you feel that you cannot report your whistleblowing at your school, then you can raise your concern with the Council through whistleblowing@herefordshire.gov.uk and this policy will apply to you.

If you are unsure whether to use this policy or you want confidential advice at any stage, you may contact the independent whistleblowing charity Protect on 020 3117 2520 or by e-mail to whistle@protect-advice.org.uk.

Further detail on this is available at <http://protect-advice.org.uk>

This service is available to all employees of the Council and allows you the opportunity to speak freely about your concerns, discuss all related issues and receive practical, constructive advice.

5.3 Introduction

Sometimes you may have concerns about what is happening at work. In most cases these concerns can be dealt with through the usual line management arrangements and are easily resolved. However, if that is not possible or if your concern feels more serious because it may relate to illegal, improper or unethical conduct and could threaten service users, colleagues, public or the Council itself then you may wish to use the whistleblowing procedures as an alternative.

The Council is committed to running the organisation in the best way possible and to do so we need your help. Experience shows that employees are often the first to realise that there may be something seriously wrong or often have worries or suspicions and could, by reporting their concerns help put things right and stop potential wrongdoing.

We have introduced this policy to reassure you that it is safe and acceptable to speak up and to enable you to raise any concerns you may have at an early stage, and in the right way.

5.4 What is Whistleblowing?

Whistleblowing is the formal raising of concerns that are in the public interest. A whistleblower is generally a term used for a person who works for an organisation and raises a concern about a danger or illegality that has a public interest aspect to it, usually because it threatens others (service users, colleagues, public).

Examples of concerns that may be in the public interest (this list is not exhaustive):

- Criminal offences (Fraud, Corruption, Bribery etc.);
- Failure to comply with legal obligations;
- Actions which endanger the health or safety of any individual;
- Actions which may cause damage to the environment;
- Actions which are intended to conceal any of the above.

This policy provides you with a framework for raising concerns, which you believe are in the public interest.

5.5 Public Interest Disclosure Act

The Public Interest Disclosure Act 1998 (PIDA) protects individuals who make certain disclosures of information in the public interest and provides that employers must not victimise any worker who blows the whistle in one of the ways set out in the legislation. This policy complies with PIDA.

5.6 Our Commitment to you

Your safety

We recognise that you may be worried about formally raising a concern for a number of reasons:

- Fear of reprisal or victimisation (e.g. loss of job);
- Too much to lose (reputation, damage to career etc.);
- Feelings of disloyalty;
- Worries about who may be involved;
- Concerns that there is no proof, only suspicions;
- Fear of repercussions if there is no evidence or you are proved wrong.

The Corporate Leadership Team, Chief Executive and Trade Unions are committed to this policy. If you raise a genuine concern under this policy, you will not be at risk of losing your job or suffering any reprisal such as harassment, victimisation or bullying. Provided you are acting in good faith, it does not matter if you are mistaken or if there is an innocent explanation for your concerns.

Your confidence

We would like to assure you that if you raise a concern:

- 'Openly' - we will protect you from reprisal;
- 'Confidentially' - we will protect you from reprisal and will not disclose your identity, without your consent, unless required by law.

As mentioned we will endeavour to protect your identity wherever possible; however, you must understand that there may be circumstances where this is not feasible. For example, if you are an essential witness and further investigation would be prevented without revealing your identity or the concern could only have come from one service. Should this situation arise, we will discuss directly with you, whether and how the matter can best proceed.

If you raise a concern 'anonymously', we will not be able to protect your position and if you experience victimisation it will make it very difficult to link it to the fact that you raised whistleblowing concerns, as your manager and others will not know you have done this. We would also be unable to provide you with feedback, or seek any further information from you.

If you are already the subject of disciplinary, capability or redundancy procedures for other reasons, whistleblowing will not halt these procedures - but every effort will be made by the investigating officer(s) to ensure that the issues are not inter-related or connected in any way.

5.7 Raising your concerns

We hope that the assurances above allow you to raise your concern internally and openly with us. If you want to raise the matter in confidence, please say so at the outset so that appropriate arrangements can be made. You may also choose not to identify yourself at any stage, to anyone, but we do not encourage anonymous reporting as the concerns are

more difficult to investigate and we are unable to offer you the same protection as an open or confidential whistleblower.

We trust that you will:

- Raise concerns at an early stage (i.e. when you have reasonable suspicion);
- **Not** wait and investigate yourself, or wait to prove that your concern is well founded.

If you are unsure about raising a concern at any stage, you can get independent advice from Protect (the independent charity whose details are set out in 5.2 above). They provide free independent legal advice on how best to raise a concern and your protection as a whistleblower.

Step one

The seriousness of the issue may influence who you decide to raise it with, but we hope that in the first instance, you will raise it with your immediate line manager. If this is not practical (for whatever reason), please raise the concern with another senior officer (Head of Service) or Director.

This may be done verbally or in writing and we do ask that you explain as fully as you can the information or circumstances that gave rise to your concern, including background and history giving names, dates and places where possible. If you have any personal interest in the matter, we do ask that you tell us at this stage.

Step two

If you feel unable to raise the matter with any of the above (for whatever reason) please raise the concern with the Monitoring Officer (whistleblowing@herefordshire.gov.uk). The Monitoring Officer (Director of Governance & Legal Services) is the officer with overall responsibility for this policy, and they will arrange for you to be contacted and for the matter to be dealt with independently of your own service area. The Monitoring Officer has a legal duty under S5 Local Government & Housing Act 1989 to report to the Council any instances of non-compliance with the law or maladministration.

Step three

If these channels have been followed and you still have concerns, or you feel that the matter is so serious that you cannot discuss it with any of the above, you can properly report a concern to an outside body. In fact, we would rather you raised a matter with the appropriate regulator - such as the Care Quality Commission, Ofsted, your professional regulator - than not at all. There is a list of bodies to whom you can make a referral if you wish to do so: <https://www.gov.uk/government/publications/blowing-the-whistle-list-of-prescribed-people-and-bodies>
[Protect](#) (details above) will be able to advise you on such an option if you wish.

You may also find it helpful to consider other relevant Council policies including, for example, the Anti-Fraud, Bribery & Corruption Policy which are available on the Council's website or at [Anti Fraud Bribery and Corruption Policy \(herefordshire.gov.uk\)](#)

5.8 How we will handle the matter

Once you have told us of your concern, the person you have reported it to (either your line manager, head of service, director under step one above, or the Council's Monitoring Officer under step two) will assess it and consider what further action may be needed. Initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take - these will be made confidentially. The Monitoring Officer will be notified that a concern has been raised, and at this stage it will be agreed with the Monitoring Officer how the matter will be dealt with. The person you have reported it to will tell you who will be handling the matter, how you can contact them, and what further assistance we may need from you. If they think your concern falls more properly within our existing complaints or employment policies and procedures, they will let you know.

The further response will depend on the nature of the concern and may be:

- Advice only;
- Resolved by agreed action without the need for investigation;
- Investigated internally;
- Referred to the relevant safeguarding team;
- Referred to the Police;
- Referred to the external auditor;
- The subject of an independent inquiry.

Whenever possible, we will give you feedback on the outcome of any investigation. Please note, however, that we may not be able to tell you about the precise actions we take where this would infringe a duty of confidence we owe to another person. While we cannot guarantee that we will respond to all matters in the way that you might wish, we will strive to handle the matter fairly and properly. By using this policy, you will help us to achieve this.

5.9 Responsible Officer

The Monitoring Officer (Director of Law and Governance) has overall responsibility for the maintenance and operation of this Whistleblowing Policy. This officer maintains a record of concerns raised and the outcomes (in a form which does not endanger employee confidentiality) and will report as necessary to the Audit & Governance Committee. This allows us to make sure that all reported whistleblowing is dealt with and that we have an understanding of the outcome and any actions needed.

Appendix A - Procedure for Managers Receiving a Concern

These procedures should be used in conjunction with the Whistleblowing Policy.

1. Managers receiving the whistleblowing concern

It is important that you listen carefully to the concern being raised and avoid pre-judging the issue. If you feel unable to do this, the employee should be encouraged to raise the concern with a more senior officer or the Monitoring Officer.

2. Establish the details of the concern

You should complete the whistleblowing checklist

3. What happens next?

Step 1 - Explain to the employee what will happen next

- Now that I have listened to and recorded your concern, I will assess it and consider what further action may be needed and I will consult the Monitoring Officer to assist me in this.
- Initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take – but you will not be involved in this process;
- I will tell you who will be handling the matter, how you can contact them, and what further assistance they may need from you (or they may contact you direct regarding this).
- If the person dealing with your concern thinks it falls more properly within our existing complaint or employment policies and procedures, they will let you know;

Step 2 - Record the concern

You **must** contact the Monitoring Officer to make them aware you have received this concern, **provide them with a copy of the whistleblowing checklist** and agree how it will be dealt with. The concern will be held on a central log by Monitoring Officer and will be routinely reviewed by them (or their designated officer) to ensure all cases are dealt with appropriately, and **to ensure that advice and support can be given if needed**.

Step 3 - Assess if wider investigation is needed

You should consider the information in the context of what you know about the particular area or activity and the information the employee provides. The first issue to be decided is whether the concern is best dealt with under the Whistleblowing Policy or some other existing policy/procedures. You should seek assistance from the Monitoring Officer to assist you in deciding this, and the Monitoring Officer will advise how the matter should be taken forward.

Whistleblowing is about serious matters of public concern (examples are given in the policy); it is not about whether the whistleblower agrees with the approach or ethos of

the service. Thus, a complaint that the service is not sufficiently helpful or is not engaging with the community effectively is not whistleblowing concern.

Concerns or allegations which fall within the scope of specific existing procedures (HR, Safeguarding, etc.) should normally be referred for consideration under those procedures.

Step 4 - Assess if anyone else should be involved

Depending on the nature of the concern you may also:

- Report the concern to your Director;
- Report the concern to HR who will be able to provide any support or additional assistance if required;
- Subject to taking advice from the Monitoring Officer, refer the matter to an external body.

Whistleblowing Checklist [Information](#) required:

Directorate and Service Area:		
Name of manager receiving concern:		
Name of employee raising concern:		
Date:		
Has the employee requested confidentiality?	<u>Yes</u>	<u>No</u>
If above answer is yes, please explain the caveat below*		

*we will not disclose your identity, without your consent, unless required by law. For example, if you are an essential witness and further investigation would be prevented without revealing your identity or the concern could only have come from one service. Should this situation arise, we will discuss directly with you, whether and how the matter can best proceed.

[Questions](#)

<u>Q1</u>	<p>Please provide me with some background and history of the concern, stating where possible:</p> <ul style="list-style-type: none"> • Names; • Dates; • Places; • Whether the information is first hand or hearsay; and • If the concern on-going or historic
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Notes

Q2 When did the concern first arise and where relevant, what is prompting the decision to speak up now?

Notes

Q3 What is alleged by the employee? What is their concern?

Notes

Q4 Where the employee is voicing to someone other than their line manager (senior officer or designated officer), whether the employee has raised the concern with their line manager, why not and if so, with what effect

Notes

Q5 Is the employee is anxious about reprisal?

Please reassure:

If you raise a genuine concern under this policy, you will not be at risk of losing your job or suffering any reprisal such as harassment, victimisation or bullying. Provided you are acting honestly, it does not matter if you are mistaken or if there is an innocent explanation for your concerns.

If you do experience problems, we will treat any reprisals as a disciplinary matter. But please note, that the above assurance is not extended to those who maliciously raise a concern that they know is untrue.

Q6 Is there anything else relevant the employee should mention?

Notes

Next Steps

- Now that we have listened to and recorded your concern, we will assess it and consider what further action may be needed;
- We have agreed that we will not disclose your identity without your consent unless required to do so by law, and we will discuss this with you if any investigation proceeds.
- Initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take – but you will not be involved in this process;
- We will tell you who will be handling the matter, how you can contact them, and what further assistance we may need from you;
- If we think your concern falls more properly within our existing complaint or employment policies and procedures, we will let you know.

Feedback

- Whenever possible, we will give you feedback on the outcome of any investigation;
- BUT we may not be able to tell you about the precise actions we take where this would infringe a duty of confidence we owe to another person.

Signature

<u>Manager receiving concern</u>	<u>Employee reporting concern</u>

The completed checklist must be sent to whistleblowing@herefordshire.gov.uk for inclusion in the central log. This is held by the Monitoring Officer and names/identities are not disclosed.

Equality Impact Assessment (EIA) Form

Please read EIA guidelines when completing this form

1. Name of Service Area/Directorate

Name of Head of Service for area being assessed: Claire Porter, Monitoring Officer

Directorate: Governance & Legal Services

Individual(s) completing this assessment: Deborah Upton

Date assessment completed: 14 February 2022

2. What is being assessed

Activity being assessed (eg. policy, procedure, document, service redesign, strategy etc.)

Whistleblowing Policy

What is the aim, purpose and/or intended outcomes of this activity?

To provide staff with an outlet to raise concerns regarding the Council and its activities

Name of lead for activity

Claire Porter, Monitoring Officer and all individual members

Who will be affected by the development and implementation of this activity?

- Service users
- Patients
- Carers
- Visitors
- Staff
- Communities
- Other:

Is this:

- Review of an existing activity/policy
- New activity/policy
- Planning to withdraw or reduce a service, activity or presence?

What information and evidence have you reviewed to help inform this assessment? (name your sources, eg. demographic information for services/staff groups affected, complaints etc.)

Previous whistleblowing concerns

Summary of engagement or consultation undertaken (eg. who and how have you engaged with, or why do you believe this is not required)

Trade Unions

Summary of relevant findings

This policy is not materially different to previous whistleblowing policies and provides a mechanism for all staff groups to raise concerns either to their line manager or the Monitoring Officer or an external organisation. Therefore it offers a choice as to the route used in the event that an individual feels uncomfortable accessing one or more routes offered.

3. The impact of this activity

Please consider the potential impact of this activity (during development and implementation) on each of the equality groups outlined below. **Please tick one or more impact box below for each Equality Group and explain your rationale.** Please note it is possible for the potential impact to be both positive and negative within the same equality group and this should be recorded. Remember to consider the impact on staff, public, patients, carers, partner organisations, etc. in these equality groups.

Equality Group	Potential positive impact	Potential neutral impact	Potential negative impact	Please explain your reasons for any potential positive, neutral or negative impact identified
Age		✓		The policy allows for concerns to be raised by all staff members, and provides additional routes to raise issues if individuals have concerns with their line manager or others within the organisation. It provides a list of external organisations which staff can contact and there are multiple channels of choice for staff. Complaints regarding the unfair treatment of staff are not a matter for the whistleblowing policy and are determined under existing HR policies.
Disability		✓		As above
Gender Reassignment		✓		As above
Marriage & Civil Partnerships		✓		As above
Pregnancy & Maternity		✓		As above. This policy can still be used by a staff member who is on maternity leave
Race (including Travelling Communities and people of other nationalities)		✓		As above
Religion & Belief		✓		As above
Sex (including issues of safety and sexual violence)		✓		As above
Sexual Orientation		✓		As above
Other Vulnerable and Disadvantaged Groups (eg. carers, care leavers, homeless, social/ economic deprivation, etc)				Not applicable as this policy only applies to staff
Health Inequalities (any preventable, unfair & unjust differences in health status between groups, populations or individuals)				Not applicable as this policy only applies to staff

Equality Group	Potential <u>positive</u> impact	Potential <u>neutral</u> impact	Potential <u>negative</u> impact	Please explain your reasons for any potential positive, neutral or negative impact identified
that arise from the unequal distribution of social, environmental & economic conditions within societies)				

What actions will you take to mitigate any potential negative impacts?

Potential negative impact	Actions required to reduce/eliminate negative impact	Who will lead on action?	Timeframe
There are no negative impacts identified			

Where an impact on any of the Equality Groups is realised after the implementation of the project/service/policy, the commissioners and/or providers of the project/service/policy will seek to minimise the impact and carry out a full review of this EIA.

4. Monitoring and review

How will you monitor these actions?

When will you review this EIA? (eg in a service redesign, this EIA should be revisited regularly throughout the design & implementation)

5. Equality Statement

- All public bodies have a statutory duty under the Equality Act 2010 to set out arrangements to assess and consult on how their policies and functions impact on the 9 protected characteristics.
- Herefordshire Council will challenge discrimination, promote equality, respect human rights, and design and implement services, policies and measures that meet the diverse needs of our service, and population, ensuring that none are placed at a disadvantage over others.
- All staff are expected to deliver services and provide services and care in a manner which respects the individuality of service users, patients, carers etc, and as such treat them and members of the workforce respectfully, paying due regard to the 9 protected characteristics.

Signature of person completing EIA

Date signed



Title of report: Work programme

Meeting: Audit and Governance Committee

Meeting date: 23 June 2023

Report by: Democratic Services Officer

Classification

Open

Decision type

This is not an executive decision.

Wards affected

(All Wards)

Purpose

To consider the committee's work programme (Appendix A).

Recommendation(s)

- (a) That, subject to any further updates made by the committee, the work programme for the Audit and Governance Committee be agreed.**

Alternative options

1. There are no alternative options, as the committee requires such a programme in order to set out its work for the coming year.
2. Updating the work programme is recommended, as the committee is required to define and make known its work. This will ensure that matters pertaining to audit and governance are tracked and progressed in order to provide sound governance for the council.

Key considerations

3. The routine business of the committee has been reflected as far as is known, including the regular reporting from both internal and external auditors.
4. The committee is asked to consider any adjustments.

Community impact

5. A clear and transparent work programme provides a visible demonstration of how the

committee is fulfilling its role as set out in the council's constitution.

Environmental impact

6. Whilst this is an update on the work programme and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

Equality duty

7. This report does not impact on this area.

Resource implications

8. There are no financial implications.

Legal implications

9. The work programme reflects any statutory or constitutional requirements.

Risk management

10. The programme can be adjusted in year to respond as necessary to risks as they are identified; the committee also provides assurances that risk management processes are robust and effective.

Consultees

11. The Director of Finance and Assurance / S151 Officer, Director of Governance and Legal Services / Monitoring Officer, and committee members contribute to the work programme; the work programme is reviewed at each meeting of the committee.

Appendices

Appendix A Work programme for the Audit and Governance Committee

Background papers

None identified.

Audit and Governance Committee Constitution		Report	June 2023	July 2023	September 2023	October 2023	November 2023	January 2024	March 2024	May 2024
3.5.9	The purpose of an audit committee is to provide independent assurance on the adequacy of the risk management framework together with the internal control of the financial reporting and annual governance processes.									
3.5.10	Internal Audit	Internal Audit								
a	To consider the Head of Internal Audit's annual report and opinion, and a summary of internal Audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.	Internal Audit Plan and Internal Audit Charter Progress Report on internal audit plan (see part b for timing) Internal Audit Annual Opinion	Internal Audit Plan and Audit Charter	Annual Report and Opinion					Internal Audit Plan and Charter Annual Report and Opinion	
b	To consider summaries of specific Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.	Progress Report on internal audit plan	Progress Report	Progress Report		Progress Report		Progress Report	Progress Report	
c	To consider reports dealing with the management and performance of the providers of Internal Audit Services.									
d	To consider a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.	Tracking of internal and external audit recommendations		Update on Audit Recommendations Report			Update on Audit Recommendations Report			
e	To be able to call senior officers and appropriate members to account for relevant issues within the remit of the Committee.	No specific activity required as part of normal questioning activity								
f	The Committee will not receive detailed information on investigations relating to individuals. The general governance principles and control issues may be discussed, in confidential session if applicable, at an appropriate time, to protect the identity of individuals and so as not to prejudice any action being taken by the Council.	Progress report on internal audit plan (see part b for timing)								
3.5.11	External Audit	External Audit								
a	Review and agree the External Auditors annual plan, including the annual audit Fee and annual letter and receive regular update reports on progress.	Annual audit fee letter External Audit progress update (see part b for timing) Tracking of internal and external audit recommendations (see part 3.5.10d for timing) Auditor's Annual Report External Audit Annual Plan	External Auditor's Annual Report External Auditor's Draft Plan (including indicative fee)		External Audit Findings Report		External Auditor's Annual Report		External Auditor's Draft Plan (including indicative fee)	
b	To consider specific reports from the External Auditor.	External Audit progress update		Progress Report		Progress Report		Progress Report		Progress Report
c	To meet privately with the External Auditor once a year if required.	Not required to be scheduled on work programme								
d	To comment on the scope and depth of external audit work and to ensure it gives value for money.	No specific activity required as part of normal questioning activity								
e	To recommend appointment of the council's local (external) auditor.									
f	Ensure that there are effective relationships between external and internal audit that the value of the combined internal and external audit process is maximised.	No specific activity required as part of normal questioning activity. External Audit can place limited reliance on Internal Audit Work.								
3.5.12	Governance									
a	To maintain an overview of the council's Constitution, conduct a biennial review and recommend any changes to council other than changes to the contract procedure rules, finance procedure rules which have been delegated to the committee for adoption.	Accounting Policy Update Contract and Finance Procedure Rules Re-thinking Governance						Accounting Policy Update (if required) Contract and Financial Procedure Rules Update (if required)		
b	To monitor the effective development and operation of risk management and corporate governance in the council.	Work Programme Corporate Risk Register	Work Programme	Work Programme Risk Registers	Work Programme Approach to Strategic Risk Management Update	Work Programme	Work Programme Risk Registers	Work Programme	Work Programme	Work Programme Risk Registers
c	To maintain an overview and agree changes to the council policies on whistleblowing and the 'Anti-fraud and corruption strategy'.	Whistleblowing Policy Anti-Fraud, Bribery and Corruption Strategy	Whistleblowing Policy			Anti-Fraud, Bribery and Corruption Policy				
d	To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.	Statement of Accounts								
e	To annually conduct a review of the effectiveness of the council's governance process and system of internal control which will inform the Annual Governance statement.	Annual Governance Statement	Draft Annual Governance Statement		Final Annual Governance Statement					
f	The council's arrangements for corporate governance and agreeing necessary actions to ensure compliance.	Annual Governance Statement Progress Report			Annual Governance Statement Action Plan Progress Report					

Audit and Governance Committee Constitution		Report	June 2023	July 2023	September 2023	October 2023	November 2023	January 2024	March 2024	May 2024
g	To annually review the council's information governance requirements.	Information Governance Review				Annual review of information access / governance				
h	To agree the annual governance statement (which includes an annual review of the effectiveness of partnership arrangements together with monitoring officer, s151 officer, caldicott guardian and equality and compliance manager reviews).	Annual Governance Statement Annual Governance Statement Progress Report								
i	To adopt an audit and governance code.									
j	To undertake community governance reviews and to make recommendations to Council.	On an ad hoc basis only								
3.5.13	Waste Contract									
a	To review, in conjunction with external advisers advising the council as lender, the risks being borne as a result of the funding provided by the council to Mercia Waste Management Ltd and consider whether the risks being borne by the council, as lender, are reasonable and appropriate having regard to the risks typically assumed by long term senior funders to waste projects in the United Kingdom and best banking practice.	Energy from Waste Loan Update			Energy from Waste Loan Update					
b	To monitor the administration of the loan to the waste project in line with best banking practice having regard to any such external advice, including the terms of any waivers or amendments which may be required or are desirable.	Energy from Waste Loan Update			Energy from Waste Loan Update					
c	Consider what steps should be taken to protect the interests of the council as lender in the event of a default or breach of covenant by Mercia Waste Management Ltd, and make recommendations as appropriate to Council, the council's statutory officers or cabinet as appropriate to ensure the appropriate enforcement of security and litigation in relation to the loan to Mercia Waste Management Ltd	Energy from Waste Loan Update			Energy from Waste Loan Update					
d	Consider and recommend appropriate courses of action to protect the position of the council as lender to the waste project: (i) make recommendation as appropriate to Council with regards to its budget and policy framework and the loan to the waste project (ii) generally to take such other steps in relation to the loan within the scope of these terms of reference as the committee considers to be appropriate.	Energy from Waste Loan Update			Energy from Waste Loan Update					
3.5.14	Code of Conduct: To promote and maintain high standards of conduct by members and co-opted members of the Council									
a	To support Town and Parish Councils within the county to promote and maintain high standards of conduct by members and co-opted members of the Council.	Annual Code of Conduct Report		Annual Monitoring Officer Report						
b	To recommend to Council the adoption of a code dealing with the conduct that is expected of members and co-opted members of the Council.									
c	To keep the code of conduct under review and recommend changes/replacement to Council as appropriate.									
d	To publicise the adoption, revision or replacement of the Council's Code of Conduct.									
e	To oversee the process for the recruitment of the Independent Persons and make recommendations to Council for their appointment.	Recruitment done on an as required basis								
f	To annually review overall figures and trends from code of conduct complaints which will include number of upheld complaints by reference to individual councillors within unitary, town and parish councils and when a code of conduct complaint has been upheld by the Monitoring Officer or by the Standards Panel, after the option of any appeal has been concluded, promptly to publish the name of the councillor, the council, the nature of the breach and any recommendation or sanction applied.	Annual Code of Conduct Report								
g	To grant dispensations under Section 33 (2)(b)(d) and (c) Localism Act 2011 or any subsequent amendment.	On an ad hoc basis only								
h	To hear appeals in relation to dispensations granted under section 33 (2)(a) and (c) Localism Act 2011 by the monitoring officer.	On an ad hoc basis only								
3.5.15	Accounts									
	To review and approve the Statement of Accounts, external auditor's opinion and reports on them and monitor management action in response to the issues raised by external audit.	Statement of Accounts External Auditor Report	Draft Statement of Accounts					Statement of Accounts Preparation report		