

# Agenda

## Audit and Governance Committee

Date: **Tuesday 24 October 2023**

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Time: **2.00 pm**

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

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

For any further information please contact:

**Jen Preece, Democratic Services Officer**

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If you would like help to understand this document, or would like it in another format, please call Jen Preece, Democratic Services Officer on 01432 261699 or e-mail [jennypreece@herefordshire.gov.uk](mailto:jennypreece@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><b>APOLOGIES FOR ABSENCE</b></p> <p>To receive apologies for absence.</p>	
2.	<p><b>NAMED SUBSTITUTES (IF ANY)</b></p> <p>To receive details of any councillor nominated to attend the meeting in place of a member of the committee.</p>	
3.	<p><b>DECLARATIONS OF INTEREST</b></p> <p>To receive declarations of interest in respect of items on the agenda.</p>	
4.	<p><b>MINUTES</b></p> <p>To approve and sign the minutes of the meeting held on 27 September 2023.</p>	11 - 16
<p><b>HOW TO SUBMIT QUESTIONS</b></p> <p>Deadline for receipt of questions is 9.30 am on Thursday 19 October 2023.</p> <p>Questions must be submitted to <a href="mailto:councillorservices@herefordshire.gov.uk">councillorservices@herefordshire.gov.uk</a>.</p> <p>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 <a href="http://www.herefordshire.gov.uk/getinvolved">www.herefordshire.gov.uk/getinvolved</a></p>		
5.	<p><b>QUESTIONS FROM MEMBERS OF THE PUBLIC</b></p> <p>To receive any questions from members of the public.</p>	
6.	<p><b>QUESTIONS FROM COUNCILLORS</b></p> <p>To receive any questions from councillors.</p>	
7.	<p><b>2022/23 EXTERNAL AUDIT FINDINGS REPORT</b></p> <p>To consider the external audit findings report for the year ended 31 March 2023.</p>	17 - 64
8.	<p><b>ANNUAL GOVERNANCE STATEMENT 2022/23</b></p> <p>To seek the view of the committee as to whether the 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.</p>	65 - 80
9.	<p><b>2022/23 STATEMENT OF ACCOUNTS</b></p> <p>To approve the 2022/23 Statement of Accounts and associated letter of representation from Grant Thornton, the external auditors.</p> <p>Changes to the Statement of Accounts following the external audit are listed in the External Audit Findings Report. The Letter of Representation, attached at Appendix 2, confirms that the group and council financial statements are</p>	81 - 210

	free of material misstatements, including omissions.	
<b>10.</b>	<b>INTERNAL AUDIT UPDATE REPORT QUARTER 2 2023-24</b>  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.	211 - 230
<b>11.</b>	<b>WHISTLEBLOWING - INTERNAL AUDIT FINDINGS AND REPORT</b>  A report to update the Committee on Internal Audit finds on the operation of the Whistleblowing Policy.	231 - 242
<b>12.</b>	<b>IN YEAR CHANGES TO FEES AND CHARGES</b>  This report seeks to a change to Part 4 Section 7 of the Financial Procedure Rules to allow officers to make in year changes to fees and charges and to a use capital programme monies to be moved from a capital scheme to fund increased spend or variations in other existing capital schemes.	243 - 248
<b>13.</b>	<b>WORK PROGRAMME</b>  To consider the work programme for the committee.	249 - 252
<b>14.</b>	<b>DATE OF NEXT MEETING</b>  Tuesday, 28 November 2023, 2pm.	



## The public's rights to information and attendance at meetings

Please take time to read the latest guidance on the council website by following the link at [www.herefordshire.gov.uk/meetings](http://www.herefordshire.gov.uk/meetings) and support us in promoting a safe environment for everyone. If you have any queries please contact the governance support team on 01432 261699 or at [governancesupportteam@herefordshire.gov.uk](mailto:governancesupportteam@herefordshire.gov.uk)

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](http://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](http://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](http://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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Members of the public are advised that if you do not wish to be filmed or photographed you should let the governance services team know before the meeting starts so that anyone who intends filming or photographing the meeting can be made aware.

The reporting of meetings is subject to the law and it is the responsibility of those doing the reporting to ensure that they comply.

The council may make a recording of this public meeting or stream it live to the council's website. Such recordings form part of the record of the meeting and are made available for members of the public via the council's YouTube channel.

## **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-](http://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.



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## 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.

<a href="#">Councillor David Hitchiner</a> (Chairperson)	Independents for Herefordshire
<a href="#">Councillor Aubrey Oliver</a> (Vice-Chairperson)	Liberal Democrats
<a href="#">Councillor Chris Bartrum</a>	Liberal Democrats
<a href="#">Councillor Frank Cornthwaite</a>	Conservative Party
<a href="#">Councillor Peter Hamblin</a>	Conservative Party
<a href="#">Councillor Robert Highfield</a>	Conservative Party
<a href="#">Councillor Mark Woodall</a>	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 Conference Room 1, Herefordshire Council Offices, Plough Lane, Hereford, HR4 0LE on Wednesday 27 September 2023 at 3.00 pm**

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

**Committee members participating via remote attendance:** Councillors: Mark Woodall

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

Others in attendance: P Barber (Director, Grant Thornton), J Coleman (Democratic Services Manager), B Evans (Engineering manager), R Hart (Head of Strategic Finance), J Higgins (Governance Support Assistant), A Lovegrove (Director of Resources and Assurance), S O'Connor (Head of Legal Services and Deputy Monitoring Officer) and J Preece (Democratic Services Officer)

**29. APOLOGIES FOR ABSENCE**

No apologies were received.

**30. NAMED SUBSTITUTES (IF ANY)**

There were no substitutes.

**31. DECLARATIONS OF INTEREST**

No declarations of interest were made.

**32. MINUTES**

**RESOLVED:**

**That the minutes of the meeting held on 31 July 2023 be confirmed as a correct record and signed by the chairperson.**

**33. QUESTIONS FROM MEMBERS OF THE PUBLIC**

No questions had been received from members of the public.

**34. QUESTIONS FROM COUNCILLORS**

No questions had been received from councillors.

### 35. INDEPENDENT MEMBER APPOINTMENT TO AUDIT & GOVERNANCE COMMITTEE

The Head of Strategic Finance presented the report on Independent Member Appointment to Audit & Governance Committee.

The report summarised the recommendations of the Redmond review published in September 2020 and Chartered Institute for Public Finance and Accountancy (CIPFA) for Audit Committees in Local Government. Both publications had recommended an independent member to bring a different technical expertise, experience and to improve and enhance governance arrangements.

It was highlighted that the most recent Auditor's annual report which considered the Councils governance arrangements as part of the work on value for money also included this in their recommendations.

The report suggested that the committee considered the skills and experience of existing members to identify areas where they might seek to enhance through the appointment of an independent member. The Head of Strategic Finance would circulate a document seeking to record the relevant skills and experience of members of the committee.

In response to committee questions, it was noted:

1. Advertising would go through the councils normal channels for public appointments. Advertisements could be included on the Councils' social media platforms to increase the reach of applicants. Members could use their own networks to encourage appropriate people they knew to apply for the role.
2. It was highlighted the committee had delegation to select an Independent Member but would then need to recommend to Full Council to appoint that person and any other terms deemed appropriate.
3. Once appointed the Independent member would have the same authority as any other member of the committee and the committee would increase to 8 members. The Constitution currently drafted restricted voting on certain matters. Voting would be granted on items such as advisory matters where the committee is passing a recommendation that goes to another body for them to adopt. Voting would be restricted on items which has been delegated to the committee to discharge on behalf of the council. For example to adopt a plan or to sign off on a particular strategy. It was highlighted that other authorities restricted voting completely. The Committee could recommend to Council changes to these arrangements if they thought this was appropriate.

**Resolved:**

**That:**

- (a) The Committee note the information provided on the appointment of an Independent Member to the Audit Committees;**
- (b) The Committee considers the skills and experience required in an Independent Member;**
- (c) Nominates the Chair, Vice Chair and at least 1 further member of the Committee to perform the recruitment and interview of the Independent Member reporting back into the Committee; and**
- (d) Delegates to those members of the Committee authority to make recommendation to full Council to appoint the Independent Member.**

Action(s): 2023/24-008 A skills audit to be undertaken by the committee to identify areas where they might seek to enhance through the appointment of an independent member.



## 36. 2022/23 FINANCIAL STATEMENT AUDIT PROGRESS

The Head of Strategic Finance introduced the report, it outlined the progress of the external audit of the Statutory Accounts for the year ended 31 March 2023.

The following points were highlighted:

- The council prepared the draft Statement of Accounts for 2022/23 and published them on 31 May 2023, in line with the statutory deadline.
- Hereford Council were one of only 30% of UK local authorities that had met the deadline.
- The statutory audit commenced on 3 July 2023, performed by Grant Thornton (GT) and their team.
- The council's Finance Team had worked hard to provide high quality working papers and responded to audit requests through the provision of evidence.
- GT had made significant progress to date and it was noted no material errors in the statements had been found.
- As a result of a number of challenges, GT were not able to present the 2022/23 External Audit Findings Report as previously planned and the statutory deadline to deliver the audit opinion on the financial statements by 30 September 2023 will now not be met. These challenges included staff resources, multiple sickness absences and issues with the skills and experience of the junior members of the audit team.
- The Director, Grant Thornton (DGT), expressed their disappointment in the position they were currently in and not as set out in the plan that was put to the committee in June. It was highlighted that the challenges were exclusively with GT and it was important to note that the co-operation from the council's Finance Team had been excellent.
- The DGT echoed the Head of Strategic Finance and provided assurance that they had made significant progress to date and it was noted no material errors in the statements had been found.
- The DGT drew attention to "Appendix A: Grant Thornton Progress Report September 2023" (Pg 128) and the declining performance against the target date for publication of audited accounts in recent years. It was thought that very few percent of authorities would meet the required deadline of 30 September.
- The DGT assured the committee they were committed to completing the audit to be brought before them at the 24 October meeting.
- The DGT informed the value for money (VFM) statement was underway and working to the deadline of the end of the year.

In response to committee questions it was noted:

1. GT were committed to ensure that the audit findings report is as complete as possible and provided the council with as much assurance as possible. The DGT confirmed he would be in attendance in person at the meeting on 24 October 2023.

The committee noted their disappointment with the delay with the accounts being signed off and frustration that the Council could not hold GT to account.

The Chairperson would write to the PGAA and Secretary of state.

2. The DGT explained, the GT contract to undertake the work as an external auditor for the Hereford Council is with the Public Sector Audit Appointments (PSAA). The PSSA holds GT to account and actively manages delivery and works with GT to help deliver timely audits.
3. The DGT recognises a delay in a large number of audits, but assures that GT consistently outperformed every other firm in terms of timeliness of accounts.

4. The DGT explained the ramifications of not meeting deadlines is factored in to future tendering processes. It was explained the PSAA contract runs for five years and Councils have the option to “opt out” and go out to appoint an independent external auditor. It was confirmed that GT had tendered for accountancy work for audits for those who appointed outside of the PSAA previously, but are not looking to tender for any further appointments moving forward.
5. The DGT confirmed that Hereford Council were prioritised and will have accounts signed off significantly ahead of the majority of GT’s other local government clients.
6. In response to a question raised around proposed PSAA fee increases and whether this would result in receiving timely reports, the DGT thought unless there was a change to the current requirement in terms of audit procedures, he would be surprised if there was any short-term Improvement in delivery.
7. The Council are working with GT to follow up on previous recommendations and management actions
8. The DGT confirmed that all individuals engaged on the audit are GT employees, there are members based in Bristol and India. A large element of the work is resourced from India but this is not subcontracted out because they are employed by Grant Thornton LLP.
9. With regards to issues recently highlighted in the press surrounding a council falling into financial difficulties, the DGT explained the process undertaken by auditors and the statutory recommendations that are issued, the DGT would circulate “Lessons from recent Public Interest Reports”.

## **Resolved**

### **That:**

- a) **Audit and Governance Committee note the progress of the external audit of the Statutory Accounts for the year ended 31 March 2023.**

2023/24-009 A letter to be sent by the Chair of the Committee to the PSAA and secretary of state.

2023/24-010 DGT to provide the committee with the “Lessons from recent Public Interest Reports”.

## **37. UPDATE ON THE ACTION PLAN IN RELATION TO “ASH DIE BACK”**

A presentation was provided by the Engineering Manager (EM), the following points were highlighted.

- The first reported case of Ash Die Back in the County was in 2014 and cases are expanding.
- The exact number, location and condition is unknown.
- There is potentially 100,000 Ash Trees in or adjacent to the public highway which could impact on the network and 95% of those are in the Councils ownership.
- The areas within the Public Realm that are affected by Ash Die Back were covered such as; trees in open spaces, verges in regards to public highways, trees on Council owned land and trees in private ownership adjacent to the public realm, highway or public rights of way. .
- The risks of Ash Die Back were explored such as, Falling Limbs causing a risk to life, property and infrastructure.
- The 4 categories which define the level of disease were explained.
- The Conservation team are leading on a County Tree Strategy, which should be approved and implemented by March 2024.

- An Ash Die Back action plan is being worked on which will set out the Council's objectives moving forward.
- Full consideration will be needed for those trees effected by Ash Die Back which are covered by a Tree Preservation Order (TPO).
- The Conservation team are reporting on and assessments being undertaken of ash trees through planning applications received.
- The Council are working with and sharing ideas and knowledge with other groups such as the Local Authority Ash Dieback Working Group, Defra, and neighbouring authorities.
- As set out in the Highways Maintenance Plan, all roads are inspected annually as a minimum, monthly inspections for the A and B roads.
- Specific surveys to be undertaken by qualified arboricultural consultant.
- Next steps include.
  - Recovery Plan – Removing the affected trees, re-planting of new trees in the right places with regards to highways and the encouragement of replanting on private landownership.
  - Monitoring information sharing,
  - Keeping the Corporate Risk Register updated.
  - Continuous updates to the communications plan so the public are informed of what the Council are doing and why.

In response to questions, the Engineering Manager commented on;

1. The EM confirmed the funding for the recovery plan had been secured within the Capital programme.
2. Currently within the public realm contract there is a small team which is complemented by local contractors. A tender process is currently underway to incorporate a framework contract so other contractors could come on board who could then be called upon as and when needed. Once that framework is in place, the Council could potentially offer that service out to support members of the public who have ash trees within their private ownership.
3. The Director of Resources and Assurance confirmed the additional budget approval for the next 4 years 2024/25 through to 2026/27 of £367k per annum was agreed by Council in February 2023 as part of the capital programme.

The Chairperson thanked the Engineering Manager for his comprehensive presentation and it was agreed Ash Die Back would be reviewed again if necessary once the committee had been updated on the Corporate Risk Registers.

### **38. WORK PROGRAMME**

The committee's updated work programme was presented, showing amendments which included the reports surrounding the statement of accounts being moved to the work plan for October. It was highlighted due to the delayed reports having moved, the agenda for October was now compacted and it was suggested some items may be rearranged to the November meeting.

#### **RESOLVED**

**That subject to the amendments noted, the updated work programme be agreed.**

### **39. DATE OF NEXT MEETING**

Tuesday, 24 October 2023 at 2pm.

The meeting ended at 4.13 pm

**Chairperson**





# Title of report: 2022/23 External Audit Findings Report

**Meeting: Audit and Governance Committee**

**Meeting date: Tuesday 24 October 2023**

**Report by: Head of Strategic Finance (Deputy S151 Officer)**

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

All Wards

## **Purpose**

To consider the external audit findings report for the year ended 31 March 2023.

## **Recommendation(s)**

**That:**

- a) the report of the external auditor attached at Appendix 1 be considered; and**
- b) the committee determine whether any issues raised in the report require inclusion in the committee's future workplan.**

## **Alternative options**

1. None; the audit of the council's statutory accounts is a requirement of the Accounts and Audit (England) Regulations 2015.
2. It is open to the committee to determine its future work programme to enable it to provide assurance on the adequacy of the council's risk management, financial reporting and annual governance processes. It is also open to the committee to comment on the scope and depth of external audit work and to ensure it gives value for money.

## Key considerations

3. The external audit findings report is attached at Appendix 1. The report has been prepared by the council's external auditor, Grant Thornton, and summarises the key findings and other matters arising from the statutory audit and the preparation of the financial statements for the year ended 31 March 2023 for the attention of those charged with governance.
4. Under International Standards on Auditing (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), the external auditor is required to report whether, in their opinion, the group and council's financial statements:
  - a) give a true and fair view of the financial position of the group and council and the group and council's income and expenditure for the year; and
  - b) have been properly prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.
5. External audit is also required to report on whether the information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or knowledge obtained through the audit or otherwise appears to be misstated.
6. The Audit Findings Report highlights the national audit backlog and the resulting impact of significant delays in the completion of audit work and the issuing of audit opinions across the local government sector and the risk of increased borrowing by local authorities.
7. The key issues arising are summarised below:
  - a) The audit work to date has not identified any material errors or adjustments to the financial statements and Grant Thornton expect to issue an unqualified audit opinion following the meeting of this committee on 24 October 2023;
  - b) Grant Thornton have concluded that the other information to be published with the financial statements is consistent with their knowledge of the organisation and the financial statements they have audited;
  - c) A small number of disclosure and presentation adjustments have been recommended and these represent a significant reduction in the adjustments and small errors noted in previous years, providing Audit & Governance Committee with assurance over the arrangements in place to provide complete, accurate and timely financial statements; and
  - d) As part of audit testing, the appropriateness of the council's accounting policies, accounting estimates and financial statement disclosures have been evaluated; no omissions or errors have been noted.

## Community impact

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

## **Environmental Impact**

9. 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.
10. 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**

11. 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.
12. 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**

13. The external audit fee detail is provided on page 34 of Appendix 1. Grant Thornton agree the fee payable through Public Sector Audit Appointments (PSAA) who manage the external audit contract.

## **Legal implications**

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

## **Risk management**

15. The council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control. The external audit is not designed to test all internal controls or identify all areas of control weakness, however, if external audit identify any control weaknesses, these are reported. The external audit work continues in this area, the audit findings report attached at Appendix 1 details the conclusions on work completed.

## **Consultees**

16. None.

## **Appendices**

Appendix 1: The Audit Findings for Herefordshire Council Year ended 31 March 2023

## **Background papers**

None identified.



# The Audit Findings for Herefordshire Council

Year ended 31 March 2023

16 October 2023



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## Your key Grant Thornton team members are:

### Peter Barber

Key Audit Partner

E peter.a.barber@uk.gt.com

### Roz Apperley

Audit Manager

E roz.e.apperley@uk.gt.com

### Manu Kathuria

In-Charge Auditor

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## Section

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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 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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and [the Audit and Governance Committee.

Name: Peter Barber  
For Grant Thornton UK LLP  
16 October 2023

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Herefordshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

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## Financial Statements

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

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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

We commenced our post-statements audit in July 2023 and as at 16 October 2022 our audit is substantially complete. Our findings are summarised on pages 6 to 20.

Our work to date has not identified any material errors or adjustments to the financial statements.

We have recommended a small number of audit adjustments to improve the presentation of the financial statements as detailed in Appendix D. We have also raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

The draft financial statements were submitted for audit in line with the agreed national timetable and were supported by good quality working papers. We have received excellent cooperation from Finance officers at the Council and we would like to put on record our appreciation for this support throughout the audit process.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix H] or material changes to the financial statements.

Subject to completing our remaining audit procedures set out on page 6, receiving responses to our outstanding queries and having regard to any further national guidance, we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on the 24 October 2023.

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

Our anticipated audit report opinion will be unmodified. Our work on the Council's value for money (VFM) arrangements is not yet complete. The outcome of our VFM work will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

# 1. Headlines

## Value for Money (VFM) arrangements

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

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

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by December 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. 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 work on these risks is underway and an update is set out in the value for money arrangements section of this report (Section 3).

## Statutory duties

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

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

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

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements and Whole of Government Accounts (WGA) Procedures. Our Auditor's Annual Report will be reported in December 2023 and we are still awaiting instructions from the NAO for the WGA work.

## Significant matters

We did not encounter any significant difficulties during our financial statements audit.

The Council's statements were published on 31 May 2023, in line with LG requirements. Given the Council's good track record of producing timely financial statements, we prioritised the 2022/23 financial statements audit. This resulted in Herefordshire being one of a small number of councils to commence in July 2023, tranche 1 of our regional delivery programme.

Whilst good audit progress was made we were unable to meet our original stretched target of an end of September 2023 sign off as set out in our Audit Plan. This was despite excellent cooperation from the finance team at Herefordshire and reflected resourcing challenges on our side including sickness.

The number of type of errors identified this year as a result of the audit represent a significant reduction on the size and number of errors identified in the prior year and provide the Audit & Governance Committee with assurance over the improved arrangements in place to produce complete, accurate and timely financial statements.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other council staff throughout the extended post-statements period.

# 1. Headlines

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## National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 1% (5 of 467) of local government bodies had received audit opinions in time to publish their 2022/23 accounts by the deadline of 30 September 2023. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

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## National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

We have recently shared our Grant Thornton national report 'Lessons from recent Public Interest Reports' with the Audit & Governance Committee that sets out some of the learning from these and other Councils that have not exercised appropriate care with public money.

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## 2. Financial Statements

### Overview of the scope of our audit

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

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

### Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 24 October 2023 subject to the following matters:

- completion of testing on investment property valuations and grant income;
- finalisation of our work on the expenditure and funding analysis;
- finalisation of our work on related parties;
- finalisation of our work on the MIRs;
- satisfactory completion of final quality reviews of the audit file and resolution of any resultant queries;
- receipt of management representation letter; and
- review of the final set of financial statements.



## 2. Financial Statements



### 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.

Materiality levels have been updated from those in the audit plan to reflect actual calculations based on the draft 2022/23 set of accounts.

We set out in this table our determination of materiality for Herefordshire Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	8,700,000	8,600,000	1.8% of gross revenue expenditure
Performance materiality	6,100,000	6,000,000	70% of materiality
Trivial matters	435,000	430,000	5% of total headline materiality
Materiality for Senior Officers	20,000	20,000	1.8% of senior officer remuneration. Lower level set due to the sensitive nature of the note



## 2. Financial Statements: Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable risk that the risk of management override of controls is present in all entities.</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 have</p> <ul style="list-style-type: none"> <li>• evaluated the design and implementation of management controls over journals</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>• identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness</li> </ul> <p>As part of our evaluation of design effectiveness of controls over journals we identified one deficiency:</p> <ul style="list-style-type: none"> <li>• In the close down journals posted there is no formal approval process of individual journals</li> </ul> <p>From our testing work performed we have not identified any instances of management override of controls. For all the journals reviewed we concluded that they were appropriate transactions.</p>	Group and council



## 2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
<b>The revenue cycle includes fraudulent transactions (rebutted)</b>	<p>It was reported in our audit plan that we had determined there was no significant risk of material misstatement arising from improper revenue recognition.</p> <p>We consider our rebuttal of revenue recognition to remain appropriate.</p>	Group and council
<b>Risk of fraud related to expenditure recognition PAF Practise Note 10 (rebutted)</b>	<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 District Council because:</p> <ul style="list-style-type: none"> <li>• expenditure is well controlled and the Council has a strong control environment; and</li> <li>• the Council has clear and transparent reporting of its financial plans and financial position to the Council.</li> </ul> <p>We consider our rebuttal of expenditure recognition to remain appropriate.</p>	Group and council

## 2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
<p><b>Valuation of Investment Property (Annual revaluation)</b></p> <p>The council revalue these assets annually to ensure that the carrying value is not materially different from the current value or the fair value (for surplus assets) at the financial statements date. The valuation represents a significant estimate by management due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of investment property, particularly revaluations and impairments, as a significant risk of material misstatement</p>	<p>We have</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>written to the valuer to confirm the basis on which the valuation was carried out;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;</li> <li>tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>evaluated the assumptions made by the valuer, and management, for those assets revalued at 31 March 2023. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these assets are not materially different to the current value at the year end.</li> </ul> <p>Our audit work in this area is still in progress.</p>	Council Only
<p><b>Valuation of Land and Buildings (Rolling revaluation)</b></p> <p>The council revalue these assets on a two-yearly rolling basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. The valuation represents a significant estimate by management due to the size of the number involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified elements of the valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>written to the valuer to confirm the basis on which the valuation was carried out;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;</li> <li>tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>evaluated the assumptions made by the valuer, and management, for those assets revalued at 31 March 2023. For the assets not formally revalued in year we have assessed how management has satisfied themselves that these assets are not materially different to the current value at the year end.</li> </ul> <p>One error was identified by the council after production of the draft accounts where an asset valuation amount has been overstated in the accounts by £4.7million as further detailed in Appendix D.</p>	Council Only

## 2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Council and/or Group
<p data-bbox="91 344 521 368"><b>Valuation of pension fund net liability</b></p> <p data-bbox="91 411 887 491">The Council'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.</p> <p data-bbox="91 507 887 587">The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£24.1m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p data-bbox="91 603 887 778">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 data-bbox="91 810 887 890">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 data-bbox="91 906 887 1050">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 data-bbox="91 1082 887 1192">We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.</p>	<p data-bbox="907 344 1010 363">We have:</p> <ul data-bbox="907 384 1816 970" style="list-style-type: none"> <li data-bbox="907 384 1816 464">• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li data-bbox="907 480 1816 539">• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li data-bbox="907 555 1816 614">• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li data-bbox="907 630 1816 689">• assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li data-bbox="907 705 1816 764">• tested 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;</li> <li data-bbox="907 780 1816 860">• undertaken 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; and</li> <li data-bbox="907 876 1816 970">• obtained assurances from the auditor of the Worcestershire 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.</li> </ul> <p data-bbox="907 986 1816 1034">Our audit work has not identified any issues in respect of valuation of the pension liability.</p>	Council Only

# 2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Land and Building valuations – £387m</b>	<p>Other land and buildings comprises £319m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings £68m are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2023 on a five yearly cyclical basis. 84% of total assets were revalued during 2022/23.</p> <p>Summarise how has management have considered alternative estimates and addressed estimation uncertainty and the disclosure made in that respect.</p> <p>Management have considered the year end value of non-valued properties. Management's assessment of assets not revalued has identified no material change to the properties value. Total year end valuation of land and buildings was £387m, a net increase of £28m from 2021/22 (£359m).</p>	<p>We have carried out the following work in relation to this estimate in line with the revised ISA540 requirements:</p> <ul style="list-style-type: none"> <li>Assessed of management's expert to ensure suitably qualified and independent;</li> <li>Assessed the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>Assessed the appropriateness of any alternative site assumptions;</li> <li>Assessed the consistency of estimate against market data; and</li> <li>Assessed the adequacy of disclosure of estimate in the financial statements.</li> </ul>	Light Purple

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## Assessment

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

## 2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Investment Property Valuation - £41.9m</b>	<p>Investment properties are required to be measured at fair value at year end. The Council has engaged Wilks Head and Eve to complete the annual valuation of these properties as at 31 March 2023.</p> <p>The total year end valuation of investment property was £41.9m, a net increase of £1.8m from 2021/22 (£40.1m).</p>	<p>We have carried out the following work in relation to this estimate in line with the revised ISA540 requirements:</p> <ul style="list-style-type: none"> <li>Assessed of management's expert to ensure suitably qualified and independent;</li> <li>Assessed the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>Assessed the appropriateness of any alternative site assumptions;</li> <li>Assessed the consistency of estimate against market data; and</li> <li>Assessed the adequacy of disclosure of estimate in the financial statements.</li> </ul>	Light Purple

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## 2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
<b>Net pension liability – £24.1m</b>	<p>The Council's net pension liability at 31 March 2023 is £24.1m (PY £282.3m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £266.6m net actuarial gain during 2022/23.</p>	<p>We have carried out the following in relation to this estimate:</p> <ul style="list-style-type: none"> <li>Assessed management's expert to ensure they are suitably qualified and independent</li> <li>Assessment of actuary's approach taken, detailed work undertaken to confirm reasonableness of approach</li> <li>Use of PwC as auditors expert to assess actuary and assumptions made by actuary – use table to compare with Actuary assumptions</li> </ul> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>4.80%</td> <td>4.70% – 4.90%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.70%</td> <td>2.70%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.20%</td> <td>3.95% – 4.20%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45/65</td> <td>23.3 / 22</td> <td>22.4 – 24.3 / 21 – 22.6</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45/65</td> <td>26.1 / 24.2</td> <td>25.3 – 26.6 / 23.5 – 24.7</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Gained assurance over the completeness and accuracy of the underlying information used to determine the estimate</li> <li>Assessed the impact of any changes to valuation method</li> <li>Assessed the reasonableness of the Council's share of LPS pension assets.</li> <li>Assessed the reasonableness of increase/decrease in estimate</li> <li>Assessed the adequacy of disclosure of estimate in the financial statements</li> </ul>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	4.80%	4.70% – 4.90%	●	Pension increase rate	2.70%	2.70%	●	Salary growth	4.20%	3.95% – 4.20%	●	Life expectancy – Males currently aged 45/65	23.3 / 22	22.4 – 24.3 / 21 – 22.6	●	Life expectancy – Females currently aged 45/65	26.1 / 24.2	25.3 – 26.6 / 23.5 – 24.7	●	Light Purple
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## 2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Minimum Revenue Provision - £12.6m</b>	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £12.6m, a net increase of £1.9m from 2021/22.</p>	<p>We have reviewed the estimate by:</p> <ul style="list-style-type: none"> <li>• assessing whether the MRP has been calculated in line with the statutory guidance;</li> <li>• assessing whether the Council's policy on MRP complies with statutory guidance;</li> <li>• reviewing the reasonableness of the increase in the MRP charge</li> </ul> <p>Our work has not identified any issues in the calculation of the Council's MRP.</p> <p>Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation.</p> <p>The Council's MRP calculation has not included any such use of capital receipts.</p>	Light Purple









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### Assessment





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## 2. Financial Statements: Information Technology

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

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Business World	ITGC assessment (design and implementation effectiveness only)					Management override of controls, valuation of PPE and investment property assets, valuation of pension liability and employee benefit expenditure
Academy	ITGC assessment (design, implementation and operating effectiveness)					Housing benefit expenditure and council tax and business rates revenues

### Assessment

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



## 2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included within the Audit & Governance Committee papers. This includes a disclosure in respect of equal pay given the recent publicity around the impact of equal pay on the financial health of Birmingham City Council.
Audit evidence and explanations	All information and explanations requested from management was provided.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Authority's bankers, lenders, and borrowers. This permission was granted, and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided promptly by the council and were of a high standard.

## 2. Financial Statements: other communication requirements



### Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li> </ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> <li>the nature of the Council and the environment in which it operates</li> <li>the Council's financial reporting framework</li> <li>the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <p>On the basis of this work, and having regard to both the single entity and group financial statements, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weaknesses.</li> </ul> <p>Our work on VFM is still in progress, to date we have nothing to report on these matters.</p>



## 2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	We intend to delay the certification the closure of the 2022/23 audit of Herefordshire Council in the audit report, as detailed in Appendix G, due to our 2022/23 VFM work being incomplete.

# 3. Value for Money arrangements (VFM)

## Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



### Improving economy, efficiency and effectiveness

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



### Financial Sustainability

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

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## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

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# 3. VFM: our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by December 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we will consider whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

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# 4. Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of 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.

Details of fees charged are detailed in Appendix E.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Grant Thornton International Transparency report 2023](#).

# 4. Independence and ethics

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group.

Service	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefit Claim	TBC	Self-Interest (because this is a recurring fee)	The expected level of this recurring fee taken on its own is not expected to be considered a significant threat to independence as the fee for this work in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
		Management (as GT report to the grant paying body)	
Certification of Teacher's Pension Claim	£7,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
		Management (as GT report to the grant paying body)	



# 4. Independence and ethics

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

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

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

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

# Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments
- G. Audit letter in respect of delayed VFM work
- H. Audit Opinion

# A. Communication of audit matters to those charged with governance

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<b>Our communication plan</b>	<b>Audit Plan</b>	<b>Audit Findings</b>
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant 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 involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

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

## Respective responsibilities

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

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

## Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

# A. 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	•	
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 including support measures when making the going concern assessment	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Details of any breaches of the requirements in this Ethical Standard, and of any safeguards applied and actions taken by the firm to address any threats to independence	•	•
Details of any inconsistencies between this Ethical Standard and the policy of the entity for the provision of non-audit/additional services by the firm and any breach or apparent breach of that policy	•	•
Key audit partners involved in the audit		•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Methodology used to perform the current year's audit and details of any substantial variation between system and compliance testing from the previous year		•
Quantitative level of materiality determined and qualitative factors considers in its determination		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant deficiencies in internal control identified during the audit and whether that deficiency has been resolved by management		•

Our communication plan	Audit Plan	Audit Findings
Significant difficulties encountered during the audit		•
Significant matters arising in connection with related parties		•
Other matters that are significant to the oversight of the financial reporting process		•
Confirmation of independence of external experts or other auditors used as part of the audit		•
Valuation methods employed and impact of changes to methods		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Confirm all requested explanation and documents have been provided		•
Distribution of tasks amongst auditors where more than one auditor has been appointed		•
Identify work performed by component auditors outside of the GTIL network in relation to consolidated financial statements		•
Scope of consolidation and compliance with financial reporting framework		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

Our Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings Report is issued prior to approval of the financial statements and presents key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

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

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

## B. Action Plan – Audit of Financial Statements

We have identified 4 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low	In our journals testing we identified that journals posted as part of close down after the 21 April are not subject to the same levels of review as journals posted in year. The Council satisfy themselves over these journals through their year end quality assurance checks performed, however, there is no written evidence to confirm review of the individual journals therefore creating an opportunity for management override of controls. From our testing performed we have however identified no attempts at management override of controls.	<p>We recommend that the council should ensure that all journals are authorised and that there is an audit trail to evidence this review process taking place.</p> <p><b>Management response</b></p> <p>There are robust controls in place over the processing of year end journals which provide segregation of duties and secondary review to ensure authorisation of the appropriateness and accuracy of journals. These controls will be reviewed as part of closedown activity in 2023/24 to strengthen the audit trail.</p>
Low	In our work on completeness, we noted a transaction that related to annual rental payment this cover period in both 2022/23 and 2023/24 financial year. However, the full amount has been posted by council in 2022/23. In line with the accruals basis of accounting the amount should have been split between the 2 financial years. The overall effect of this is nil as in 2021/2022 the part of the transaction that related to current period 2022-23 was posted in 2021-22. Therefore, resulting in the correct amount being recorded over the course of a year.	<p>We recommend that the council ensure that amounts are accounted for in the period in which they relate in line with the accruals basis of accounting.</p> <p><b>Management response</b></p> <p>At each year end, accruals are processed to ensure that income and expenditure is accounted for in the period in which the council received or provided the goods or service. Due to the strict closedown timetable, estimates may be included using judgement and reasonable expectations of value. We will continue to ensure that a review of income and expenditure around the financial year end is undertaken to ensure accurate accounting.</p>
Low	During our audit of the bank reconciliation, we noted that there were several outstanding cheques related to Housing Benefit that were dated between six months old and back as far as 2018.	<p>We recommend that management review the bank reconciliations and ensure that any old cheques are written off.</p> <p><b>Management response</b></p> <p>Reconciling items will be reviewed as part of monthly bank reconciliation procedures and outstanding items will be investigated to ensure timely resolution of older items.</p>
Low	There are a number of fully depreciated assets still in use by the council. This therefore creates at risk that the annual depreciation charge is overstated if an appropriate useful lives is not being used.	<p>We recommend that management ensure that useful lives are regularly reviewed to ensure they are being appropriately applied.</p> <p><b>Management response</b></p> <p>The useful lives of the council's assets will continue to be reviewed at each year end to ensure that the cost is spread over an appropriate period.</p>

### Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# C. Follow up of prior year recommendations

We identified the following issues in the audit of Herefordshire Council's 2021/22 financial statements, which resulted in 3 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed and are reported in Appendix B.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Users with the ability to post journals have limits set within Business World which limit the size of journals that can be posted. In addition, management have a monthly review process outside of the ledger to ensure that journals posted are appropriate. As per this review process, the finance team receive an automatic notification from Business World at the end of each month showing all journals above £250k (£2m for journals posted after year end). The notification also detail whether or not a document has been attached to support the journal within Business World. This notification is then reviewed by the finance team to identify if any journals are unsupported.</p> <p>During our review of journals, we identified instances where not documents were attached to Business World and also cases where the review work paper was not accurately maintained. Moreover, we were also informed that this review procedure is not carried out for journals posted after period 12. We recommend the council to ensure stricter controls around high value journals and maintain a proper audit trail to evidence such review.</p>	<p><b>Management comment</b></p> <p>The authorisation and review of high level journals including those posted after period 12 will be reviewed as part of closedown procedures in 2023/24.</p>
✓	<p>The council has investment properties which it leases to tenant during our review we noted that there were several lease arrangements have ended but the lease has been continued with the Council receiving monthly income with no contract to support the arrangement. In addition to this, we found three instances (in our sample of five leases) whereby the Council have charged the wrong amount.</p>	<p><b>Management comment</b></p> <p>This action has now been completed.</p>
X	<p>During our audit of the bank reconciliation, we noted that there were several outstanding cheques related to Housing Benefit that were dated between six months old and back as far as 2018.</p>	<p><b>Management comment</b></p> <p>As per page 29: Reconciling items will be reviewed as part of monthly bank reconciliation procedures and outstanding items will be investigated to ensure timely resolution of older items.</p>

## Assessment

- ✓ Action completed
- X Not yet addressed

# D. Audit Adjustments

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

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
PPE – overstatement of PPE asset valuation. Identified by the council after production of the draft accounts.	N/A	Dr Revaluation Reserve 4,739 Cr Land and Buildings 4.739	Cr Surplus or deficit on revaluation of non-current assets 4,739	N/A

## Misclassification and disclosure changes

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

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
The accounts did not detail the useful expected life (UEL) of land and buildings assets. The life should be detailed as 24- 56 years.	We therefore recommend that management update the PPE note to include the UEL of land and building assets <b>Management response</b> Agreed - disclosure in the accounts have been updated as recommended	✓
In the senior employee's remuneration note the salary and allowances and pension contributions amount for the corporate director has been incorrectly entered this should be disclosed as Salary and allowance £31k and pension contributions £5k.	We therefore recommend that management update the Senior Employees Remuneration note to include the correct amounts <b>Management response</b> Agreed - disclosure in the accounts have been updated as recommended	✓
A number of presentation and typographical changes were identified within the draft financial statements which have been corrected by management in order to aid transparency.	We therefore recommend that management update the accounts for the relevant matters raised <b>Management response</b> Agreed - disclosure in the accounts have been updated as recommended	✓

# D. Audit Adjustments

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
<p>The annual leave accrual is incorrectly included in the financial instruments note as a financial liability, under IAS 32 this is not a financial instrument, this results in a decrease in financial liabilities disclosure of £3,200k.</p>	<p>We recommended that management amend the disclosure to appropriately exclude the annual leave accrual in the financial instrument's disclosure.</p> <p><b>Management response</b> Agreed - disclosure in the accounts have been updated as recommended</p>	✓



## D. Audit Adjustments (continued)

### Impact of unadjusted misstatements

No adjustment misstatement identified from our work performed .

### Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure	Impact on general fund	Reason for not adjusting
PPE revaluation – during the audit we noted that the incorrect build costs had been used in the valuation of one asset by the valuer	-	Dr Revaluation reserve £0.096m Cr Land and Buildings £0.096m	-	-	- Not Material
<b>Overall impact</b>	-	<b>0.096m</b>	-	-	



## E. Fees

We confirm below our final fees charged for the audit.

<b>Audit fees</b>	<b>2021/22 Actual Fee £</b>	<b>2022/23 Indicative fee at planning £ *</b>	<b>2022/23 Anticipated final fee £ **</b>
Scale fee	101,792	106,417	106,417
Additional proposed fee	88,375	57,885	52,625
Total audit fees (excluding VAT)*	190,167	164,302	159,042

\*Indicative 2022/23 fee breakdown at planning provided in 2022/23 Audit Plan dated 12 June 2023.

\*\* Anticipated final 2022/23 fee has been reduced to reflect the removal of costs associated with the use of our auditors' expert in respect of land and building and investment properties. Final fee subject to completion of VFM work that is currently ongoing. All additional fees are subject to approval by PSAA.

## E. Fees and non-audit services

<b>Non-audit fees for other services</b>	<b>Fee</b>
Audit Related Services	0
Certification of Housing Benefit	TBC
Certification of Teachers' Pensions Claim	£7,500
<b>Total non-audit fees (excluding VAT)</b>	<b>TBC</b>

Audit Fees reconciliation:

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	<b>Fee £'000</b>
Fees for 2022/23 per financial statements	240
Less anticipated additional fees for current year	(119)
Plus actual additional fees for current year	52
Plus change in scale fee between years	5
Less certification work	(19)
<b>Final anticipated fees for 2022/23</b>	<b>159*</b>

\* See 2022/23 final anticipated fee on page 34

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

# F. Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> <li>the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures</li> <li>the identification and extent of work effort needed for indirect and direct controls in the system of internal control</li> <li>the controls for which design and implementation needs to be assess and how that impacts sampling</li> <li>the considerations for using automated tools and techniques.</li> </ul>
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>increased emphasis on the exercise of professional judgement and professional scepticism</li> <li>an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence</li> <li>increased guidance on management and auditor bias</li> <li>additional focus on the authenticity of information used as audit evidence</li> <li>a focus on response to inquiries that appear implausible</li> </ul>
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> <li>Consideration is also being given to the potential impacts on confidentiality and independence.</li> </ul>
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>clarification of the requirements relating to understanding fraud risk factors</li> <li>additional communications with management or those charged with governance</li> </ul>
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

# G. Audit letter in respect of delayed VFM work

David Hitchiner  
Chair of Audit and Governance Committee  
Herefordshire Council  
Plough Lane  
Hereford  
HR4 0LE

Dear David,

## **2022/23 VFM Arrangements**

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible can be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than December 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Peter Barber

Director

# H. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group with an unmodified audit report

## Independent auditor's report to the members of Herefordshire Council

### Report on the audit of the financial statements

#### Opinion on financial statements

We have audited the financial statements of Herefordshire Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the, the Cash Flow Statement, the notes to the financial statements, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Movement in Reserves Statement, the Group Cash Flow Statement and notes to the group financial statements and the Collection Fund Statement, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

# H. Audit opinion

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's and the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

## Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

# H. Audit opinion

## Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority and the Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on page 17, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.



# H. Audit opinion

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 1972, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012, and the Local Government Act 2003).

We enquired of management and the Audit and Governance committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit and Governance committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, and of fraudulent recognition of revenue and expenditure. We determined that the principal risks were in relation to journal entries outside of the normal course of business and significant management estimates, in particular those relating to land and buildings valuations (including valuations of investment property) and the valuation of the net pension fund liability. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on unusual and high-risk journals made at the year-end accounts production stage;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment properties, and defined benefit pensions liability valuations; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's [and component auditor's].

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector in which the group and Authority operates

# H. Audit opinion

- understanding of the legal and regulatory requirements specific to the Authority and group including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

For components at which audit procedures were performed, we requested component auditors report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

### **Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

### **Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

# H. Audit opinion

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

## Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Herefordshire Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2023.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023.

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Peter Barber, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:





# Title of report: Annual Governance Statement 2022/23

**Meeting: Audit and Governance Committee**

**Meeting date: Tuesday 24 October 2023**

**Report by: Head of Strategic Finance (Deputy S151 Officer)**

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

All Wards

## **Purpose**

To seek the view of the committee as to whether the Annual Governance Statement (AGS) for 2022/23 properly reflects the internal control environment the council is operating in and the appropriateness of actions identified to improve.

## **Recommendation(s)**

**That:**

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

## **Alternative options**

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

## **Key considerations**

2. The council is required, as part of an ongoing review of the effectiveness of its governance arrangements, to produce an AGS which forms part of the Annual Statement of Accounts. The AGS is primarily retrospective. It reports on the governance framework and internal controls in place for the financial year 2022/23 and considers any significant governance issues up to the

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

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

3. The AGS is informed by Directors' and Statutory Officers' declarations, reviews of compliance with laws and regulations, corporate strategies, policies, plans and internal audit reports and opinions. It is updated to include any governance issues identified between the balance sheet date and the publication of the statutory accounts.
4. The AGS is a review of activities to ensure that the council's internal control and governance framework is operating effectively. The statement explains how the council has discharged its governance responsibilities during 2022/23 and the key governance mechanisms in place to manage risks of failure in delivering outcomes and decision making.
5. The preparation and publication of the AGS has been undertaken with reference to the seven core principles of good governance as identified in the Chartered Institute of Public Finance (CIPFA) Delivering Good Governance in Local Government Framework 2016.
6. The CIPFA guidance advises that statements should be meaningful but brief, high level, strategic and written in an open and readable style, and should include:
  - 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 the key elements of the governance framework (set out in the code of corporate governance) and the role of those responsible for the development and maintenance of the governance environment, such as the council, the executive, the audit committee, internal audit and others as appropriate.
  - 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
  - f) a commitment to monitoring implementation as part of the next annual review.
7. There are several component that contribute to the AGS as follows:
  - a) Statutory officer comments;
  - b) Manager's checklist to inform each corporate director's statement;
  - c) Self-assessment of significant partnerships.
8. 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 corporate director in each directorate (or monitoring officer in the corporate centre) to review and contribute to their own statement.

9. A self-assessment of significant partnerships is also completed, and reviewed by the corporate directors or directors in the corporate centre.
10. The actions identified to deliver continuous improvement in governance arrangements following the review of 2021/22 will form part of an action plan and progress will be reported to this committee.

### **Community impact**

11. 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.
12. The annual review ensures that our arrangements are effective in supporting achievement of the council's vision and county plan priorities.

### **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. 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**

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 factual update we do not believe that it will have an impact on our equality duty.

### **Resource implications**

17. 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

18. 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

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

<b>Risk / opportunity</b>	<b>Mitigation</b>
Not all relevant information is captured.	There are several routes to collecting information – including additional feedback to finalise the AGS.
Not all gaps in assurance are covered.	Where there are gaps in information internal audit will be considered; inspections and peer reviews.
There are insufficient resources to implement.	Additional resources will be identified as part of in year financial monitoring for approval in line with financial governance arrangements, if required.

## Consultees

20. The consultees have largely been internal, with internal and external audit and members of the Audit and Governance Committee commenting on the draft; minute 10 of 23 June 2023. Independent persons have been asked for their view on the draft AGS, along with internal and external audit. This has influenced the final version presented to the Audit and Governance Committee.

## Appendices

Appendix 1: Annual Governance Statement 2022/23

## Background papers

None identified.



# Annual Governance Statement 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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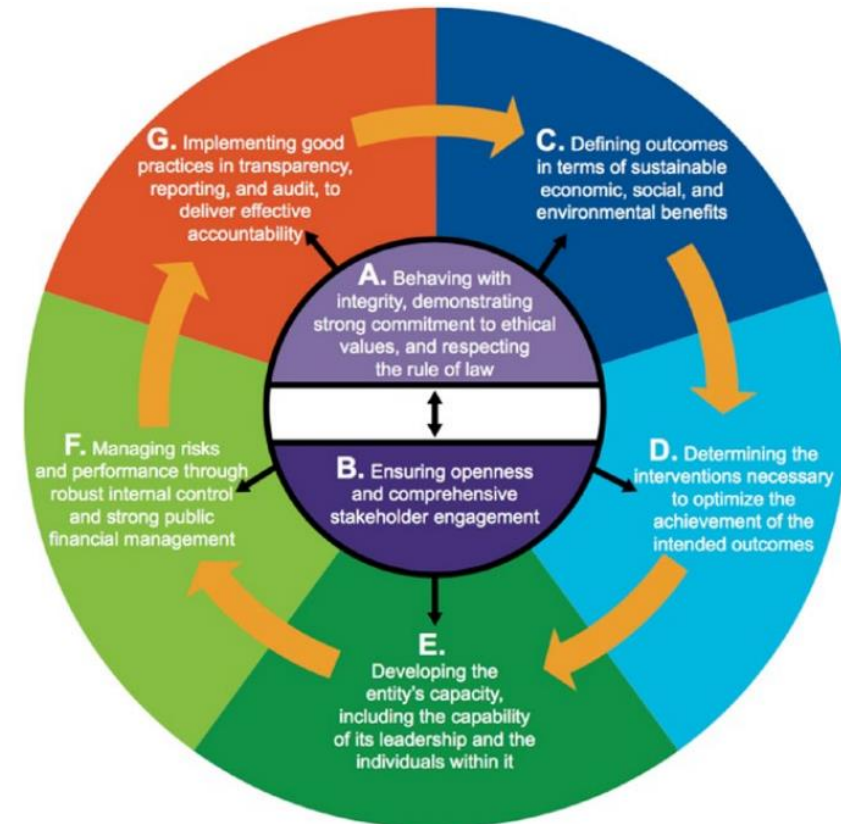
## The purpose of the Governance Framework

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.

### 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 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.

08 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: 24/10/2023**

**Jonathan Lester**  
**Leader of the Council**  
**Date: 24/10/2023**

# Title of report: 2022/23 Statement of Accounts

**Meeting: Audit and Governance Committee**

**Meeting date: Tuesday 24 October 2023**

**Report by: Head of Strategic Finance (Deputy S151 Officer)**

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

All Wards

## **Purpose**

To approve the 2022/23 Statement of Accounts and associated letter of representation from Grant Thornton, the external auditors.

Changes to the Statement of Accounts following the external audit are listed in the External Audit Findings Report. The Letter of Representation, attached at Appendix 2, confirms that the group and council financial statements are free of material misstatements, including omissions.

## **Recommendation(s)**

**That:**

- a) the 2022/23 Statement of Accounts (at Appendix 1) be approved; and
- b) the Letter of Representation (at Appendix 2) be signed by the chairperson of the committee and the Chief Finance Officer.

## **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 sheet, movement in reserves statement, cash flow statement, collection fund statement, group accounts and supporting notes.
3. The council prepared draft Statement of Accounts for 2022/23 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. These draft, unaudited accounts were presented to this committee at its meeting on 23 June 2023.
4. The financial statements are prepared in accordance with international financial reporting standards. The S151 Officer is satisfied that the Statement of Accounts present a true and fair view of the financial position of the council and its group as at 31 March 2023 and its income and expenditure for the year ended 31 March 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 Statement of Accounts.
9. Net assets on the balance sheet have increased from £342.7 million at 31 March 2022 to £600.2 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.
12. The external audit has identified a small number of presentation and disclosure adjustments and where appropriate these have been reflected in the accounts.
13. The Value for Money (VFM) fieldwork to inform the audit opinion will continue over the next few months and the outcome of this work will be reported in the Auditor's Annual Report, expected by December 2023.
14. The approved 2022/23 Annual Governance Statement will be added to the Statement of Accounts attached at Appendix 1.
15. Attached at Appendix 2 is the council's Letter of Representation confirming that, to the best of the council's knowledge and belief, the financial statements, at Appendix 1, give a true and fair view in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

### **Community impact**

16. 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**

17. 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.
18. This report is to approve the 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**

19. 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.
20. 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**

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

### **Legal implications**

22. 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 commenced on 1 June 2023 and lasted for six weeks; and
  - c) Following the conclusion of the period for inspection, the committee must approve the statement of accounts by a resolution and ensure that the statement of accounts is signed and dated by the person presiding at the committee. In order for the committee to do so the S151 officer has re-confirmed that he is satisfied that the statement of accounts presents a true and fair view.

### **Risk management**

23. The external auditors have issued an unqualified opinion on the statement of accounts, as per the External Audit Findings Report included in today's agenda.
24. 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 for which Grant Thornton provide a Value for Money opinion, this report will follow at a later date.

### **Consultees**

25. The Statement of Accounts was made available for public inspection for a six week period commencing 1 June 2023. No representations or objections were received.

### **Appendices**

Appendix 1: Statement of Accounts 2022/23  
Appendix 2: Letter of Representation for 2022/23

### **Background papers**

None identified.









# Herefordshire Council Statement of Accounts 2022/23





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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 km<sup>2</sup>. 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.

## 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

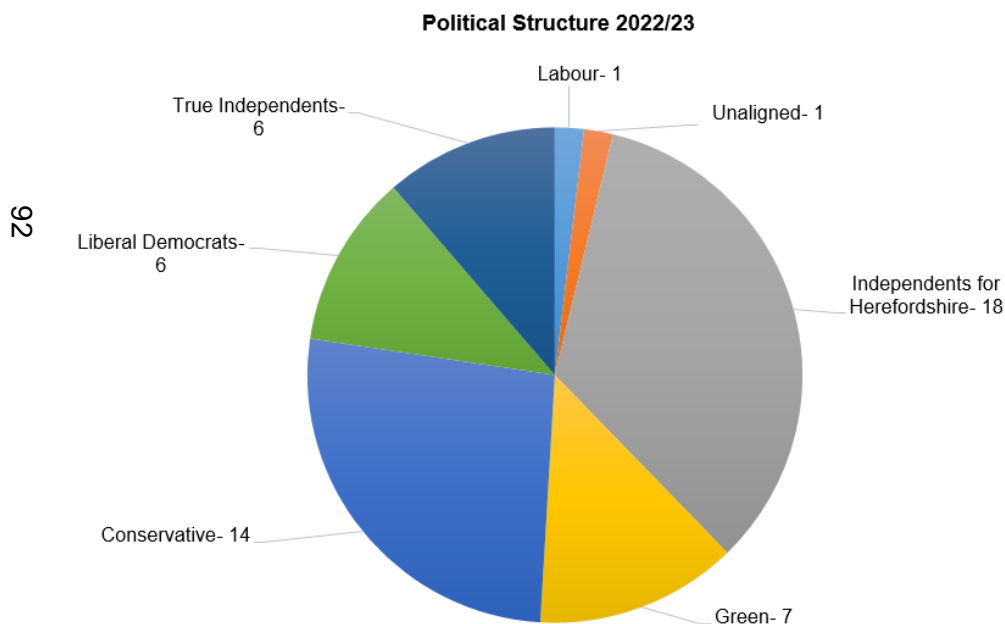
Protect and promote our heritage, culture and natural beauty to enhance quality of life and support tourism

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.

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

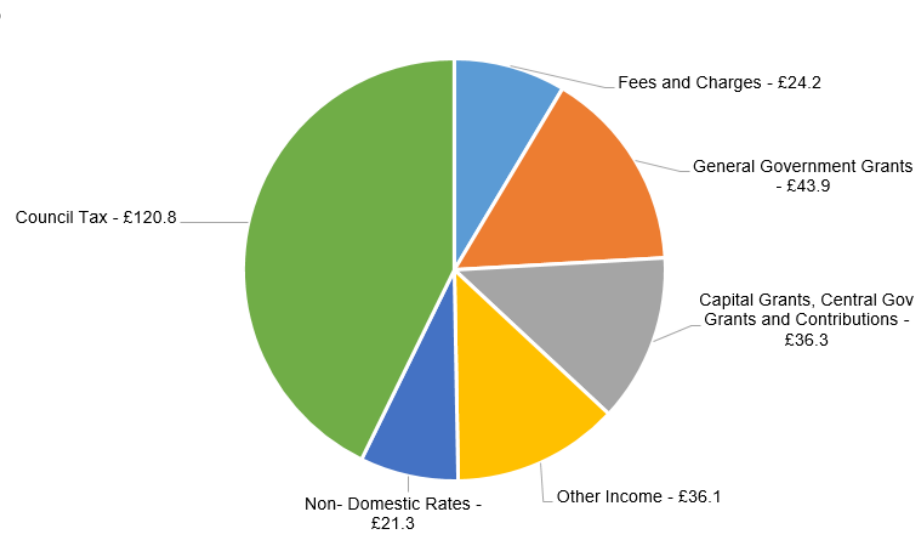
### Revenue Summary

The council receives funding from three main sources:

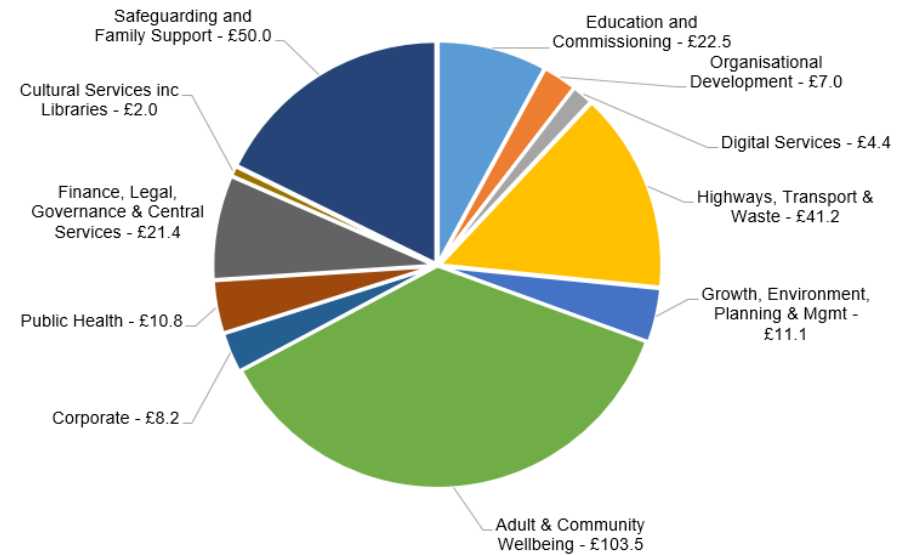
- Government grants
- Council tax
- Business rates

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**



**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)
<b>Sub Total: Services</b>	<b>167.269</b>	<b>174.623</b>	<b>7.354</b>
Central, Treasury Management	8.639	6.844	(1.795)
<b>Total</b>	<b>175.908</b>	<b>181.467</b>	<b>5.559</b>

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.

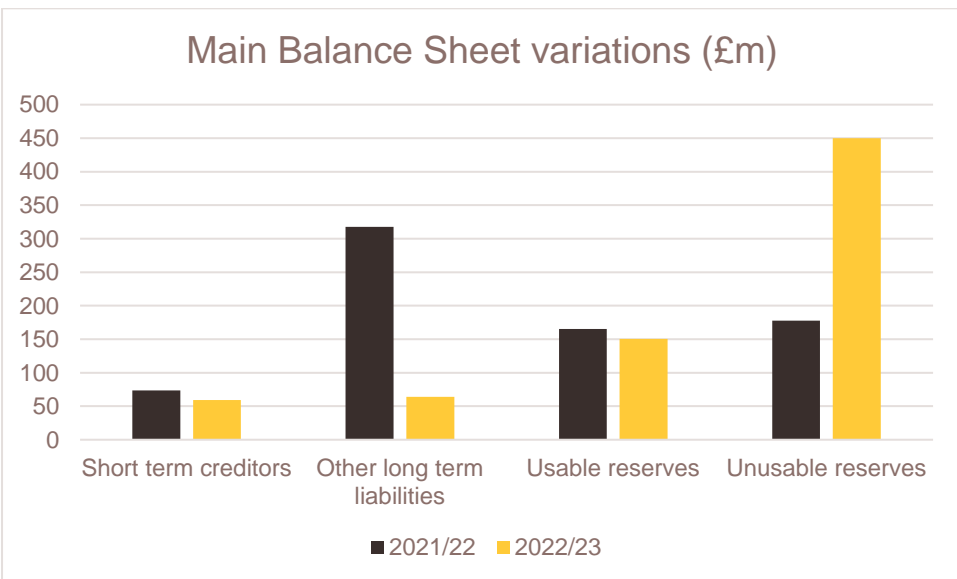
<b>Summary Financial Position</b>	<b>Approved budget £m</b>	<b>Revised budget £m</b>	<b>Expenditure £m</b>	<b>Variance £m</b>
Community Wellbeing Delivery Board	4.000	3.687	2.464	(1.223)
Housing and Accommodation Delivery Board	13.009	2.380	0.846	(1.534)
IT Services Partnership Board	1.923	1.591	0.604	(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)
<b>Total</b>	<b>99.094</b>	<b>66.996</b>	<b>46.420</b>	<b>(20.576)</b>

**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 £257.5 million from £342.7 million at 31 March 2022 to £600.2 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	872.3	(13.6)
Liabilities (what we owe)	(543.2)	(272.1)	271.1
<b>Net financial position (assets less liabilities)</b>	<b>342.7</b>	<b>600.2</b>	<b>257.5</b>
<b>The net financial position is held in reserves as follows:</b>			
General reserves (usable)	(165.1)	(150.5)	14.6
Other reserves (unusable)	(177.6)	(449.7)	(272.1)
<b>Total reserves</b>	<b>(342.7)</b>	<b>(600.2)</b>	<b>(257.5)</b>

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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**

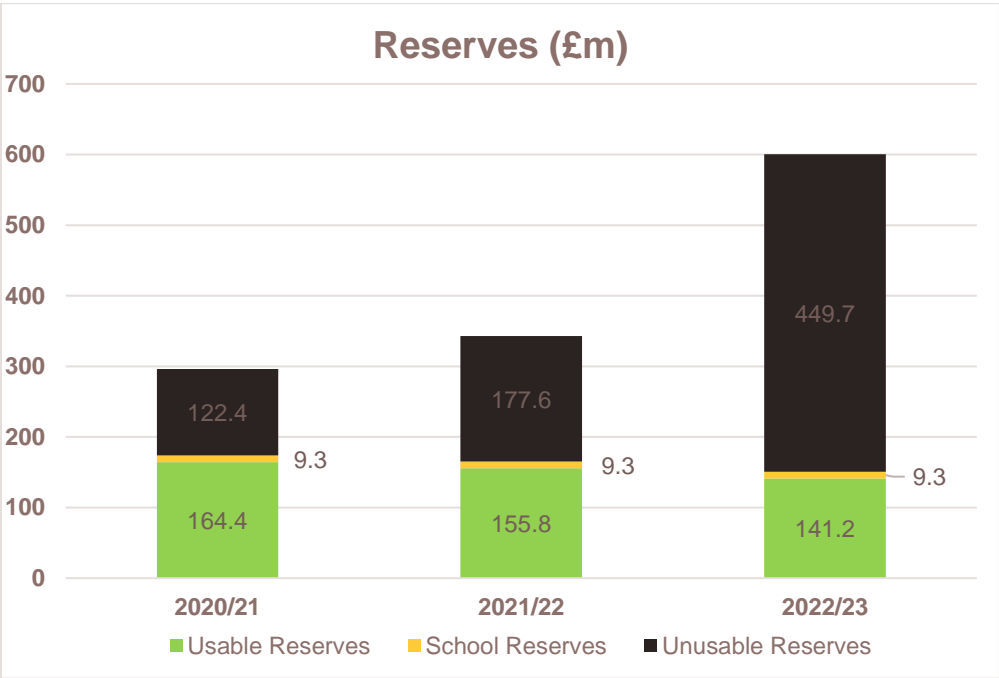
Herefordshire Council’s non-teaching staff are members of the Worcestershire County Council Pension Fund. Herefordshire’s proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31 March 2023 is £24.7 million (£272.6 million at 31 March 2022) on an International Accounting 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.

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**Unusable Reserves**

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

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

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

101 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

24/10/2023

## 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

24/10/2023



# 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
	<b>414.2</b>	<b>(236.9)</b>	<b>177.3</b>	<b>Net cost of services</b>	8	<b>479.0</b>	<b>(250.3)</b>	<b>228.7</b>
	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)
	<b>436.4</b>	<b>(444.2)</b>	<b>(7.8)</b>	<b>(Surplus)/deficit on the provision of services</b>	9	<b>502.7</b>	<b>(470.1)</b>	<b>32.6</b>
			(15.7)	(Surplus)/deficit on revaluation of non-current assets				(23.6)
			(23.2)	Re-measurement of the net defined benefit liability				(266.5)
			(38.9)	<b>Other comprehensive (income) and expenditure</b>				(290.1)
			(46.7)	<b>Total comprehensive (income) and expenditure</b>				(257.5)

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 statement of accounts were authorised for issue by the Director of Resources and Assurance (Section 151 officer) on 24 October 2023.

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31 March 2022 £m		Note	31 March 2023 £m
681.8	Property, plant and equipment	19	690.1
40.1	Investment property	20	41.9
0.3	Intangible assets		0.4
3.2	Heritage assets		3.9
38.9	Long term debtors	T2.2	37.3
<b>764.3</b>	<b>Long term assets</b>		<b>773.6</b>
43.0	Short term investments	T2.2	37.7
0.1	Inventories		0.3
36.0	Short term debtors	22	35.2
42.5	Cash and cash equivalents	23	25.5
<b>121.6</b>	<b>Current assets</b>		<b>98.7</b>

31 March 2022 £m		Note	31 March 2023 £m
(7.8)	Short term borrowing	T2.3	(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)
<b>(87.3)</b>	<b>Current liabilities</b>		<b>(70.6)</b>
(3.5)	Long term provisions		(1.8)
(123.0)	Long term borrowing	T2.3	(119.9)
(11.7)	Capital grants receipts in advance	25	(15.7)
(317.7)	Other long term liabilities	T2.3	(64.1)
<b>(455.9)</b>	<b>Total long term liabilities</b>		<b>(201.5)</b>
<b>342.7</b>	<b>Net assets</b>		<b>600.2</b>
(165.1)	Usable reserves	29	(150.5)
(177.6)	Unusable reserves	30	(449.7)
<b>(342.7)</b>	<b>Total reserves</b>		<b>(600.2)</b>

## 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
<b>Balance at 31 March 2021</b>	<b>(9.1)</b>	<b>(105.6)</b>	<b>(114.7)</b>	<b>(44.6)</b>	<b>(14.3)</b>	<b>(173.6)</b>	<b>(122.4)</b>	<b>(296.0)</b>
Total comprehensive income and expenditure	(7.8)	-	<b>(7.8)</b>	-	-	<b>(7.8)</b>	(38.9)	<b>(46.7)</b>
Adjustments between accounting basis and funding basis under regulations (note 28)	16.4	-	<b>16.4</b>	1.4	(1.5)	<b>16.3</b>	(16.3)	-
Transfers (to)/from earmarked reserves	(9.1)	9.1	-	-	-	-	-	-
<b>(Increase)/decrease in year</b>	<b>(0.5)</b>	<b>9.1</b>	<b>8.6</b>	<b>1.4</b>	<b>(1.5)</b>	<b>8.5</b>	<b>(55.2)</b>	<b>(46.7)</b>
<b>Balance at 31 March 2022</b>	<b>(9.6)</b>	<b>(96.5)</b>	<b>(106.1)</b>	<b>(43.2)</b>	<b>(15.8)</b>	<b>(165.1)</b>	<b>(177.6)</b>	<b>(342.7)</b>
Total comprehensive income and expenditure	32.6	-	<b>32.6</b>	-	-	<b>32.6</b>	(290.1)	<b>(257.5)</b>
Adjustments between accounting basis and funding basis under regulations (note 28)	(17.9)	-	<b>(17.9)</b>	3.1	(3.2)	<b>(18.0)</b>	18.0	-
Transfers (to)/from earmarked reserves	(14.7)	14.7	-	-	-	-	-	-
<b>(Increase)/decrease in year</b>	<b>-</b>	<b>14.7</b>	<b>14.7</b>	<b>3.1</b>	<b>(3.2)</b>	<b>14.6</b>	<b>(272.1)</b>	<b>(257.5)</b>
<b>Balance at 31 March 2023</b>	<b>(9.6)</b>	<b>(81.8)</b>	<b>(91.4)</b>	<b>(40.1)</b>	<b>(19.0)</b>	<b>(150.5)</b>	<b>(449.7)</b>	<b>(600.2)</b>
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
<b>(44.9)</b>	<b>Net cash flows from operating activities</b>	32	<b>6.1</b>
25.5	Net cash flows from investing activities	33	(0.6)
0.4	Net cash flows from financing activities	34	11.4
<b>(19.0)</b>	<b>Net (increase)/decrease in cash and cash equivalents</b>		<b>16.9</b>
21.2	Cash and cash equivalents at 1 April		40.2
40.2	Cash and cash equivalents at 31 March	23	23.3
<b>19.0</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(16.9)</b>



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

### 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. Work is ongoing to determine the impact on the financial statements, and it is too early to quantify at this stage.

## 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 £690.1 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 £690.1 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"> <li>A 0.5% increase in the discount rate used would decrease the liability by £43.1 million.</li> <li>A 0.25% increase in the inflation rate used would increase the liability by £23.3 million.</li> <li>A 0.25% increase in the rate of pay growth used would increase the liability by £2.8 million.</li> <li>An increase of one year in assumed life expectancy used would increase the liability by £11.3 million.</li> <li>A 1.0% increase in investment returns would decrease the liability by £5.3 million.</li> <li>A 1.0% decrease in investment returns would increase the liability by £5.3 million.</li> </ul>

## 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.

119 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.

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	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
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
<b>Net cost of services</b>	<b>181.4</b>	<b>30.1</b>	<b>211.5</b>	<b>17.2</b>	<b>228.7</b>
Other income and expenditure	(175.9)	(20.9)	(196.8)	0.7	(196.1)
<b>(Surplus)/deficit on the provision of services</b>	<b>5.5</b>	<b>9.2</b>	<b>14.7</b>	<b>17.9</b>	<b>32.6</b>
Opening general fund balance at 1 April			(106.1)		
(Surplus)/deficit			14.7		
<b>Closing general fund balance at 31 March</b>			<b>(91.4)</b>		
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
<b>Net cost of services</b>	<b>160.4</b>	<b>27.1</b>	<b>187.5</b>	<b>(10.2)</b>	<b>177.3</b>
Other income and expenditure	(160.9)	(18.0)	(178.9)	(6.2)	(185.1)
<b>(Surplus)/deficit on the provision of services</b>	<b>(0.5)</b>	<b>9.1</b>	<b>8.6</b>	<b>(16.4)</b>	<b>(7.8)</b>
Opening general fund balance at 1 April			(114.7)		
(Surplus)/deficit			8.6		
<b>Closing general fund balance at 31 March</b>			<b>(106.1)</b>		
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)
<b>(18.3)</b>	<b>8.1</b>	<b>-</b>	<b>(10.2)</b>	<b>Net cost of services</b>	<b>6.7</b>	<b>9.8</b>	<b>0.7</b>	<b>17.2</b>
(0.2)	6.0	(12.0)	(6.2)	Other income and expenditure	2.6	7.6	(9.5)	0.7
<b>(18.5)</b>	<b>14.1</b>	<b>(12.0)</b>	<b>(16.4)</b>	<b>(Surplus)/deficit on the provision of services</b>	<b>9.3</b>	<b>17.4</b>	<b>(8.8)</b>	<b>17.9</b>

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

	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	-	<b>2.0</b>	Children and Young People	4.5	(5.8)	-	-	<b>(1.3)</b>
	1.3	0.1	(0.4)	-	<b>1.0</b>	Community Wellbeing	2.4	(2.6)	(0.4)	-	<b>(0.6)</b>
	15.5	(1.6)	(0.6)	-	<b>13.3</b>	Economy and Environment	21.9	(4.6)	(0.8)	-	<b>16.5</b>
120	1.8	(6.5)	3.3	12.2	<b>10.8</b>	Corporate Services	0.5	(3.5)	3.4	15.1	<b>15.5</b>
	<b>19.5</b>	<b>(8.6)</b>	<b>4.0</b>	<b>12.2</b>	<b>27.1</b>	<b>Net cost of services</b>	<b>29.3</b>	<b>(16.5)</b>	<b>2.2</b>	<b>15.1</b>	<b>30.1</b>
	(17.7)	(11.3)	(1.5)	12.5	<b>(18.0)</b>	Other income and expenditure	(24.7)	(1.0)	(3.9)	8.7	<b>(20.9)</b>
	<b>1.8</b>	<b>(19.9)</b>	<b>2.5</b>	<b>24.7</b>	<b>9.1</b>	<b>(Surplus)/deficit on the provision of services</b>	<b>4.6</b>	<b>(17.5)</b>	<b>(1.7)</b>	<b>23.8</b>	<b>9.2</b>

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
	<b>Income</b>	
(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	-
<b>(444.2)</b>	<b>Total Income</b>	<b>(470.1)</b>
	<b>Expenditure</b>	
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
<b>436.4</b>	<b>Total expenditure</b>	<b>502.7</b>
<b>(7.8)</b>	<b>(Surplus)/deficit on the provision of services</b>	<b>32.6</b>

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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
<b>4.6</b>	<b>Total other operating income and expenditure</b>	<b>8.6</b>

## 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)
<b>10.5</b>	<b>Total financing and investment income and expenditure</b>	<b>6.3</b>

## 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)
<b>(200.2)</b>	<b>Total taxation and non-specific grant income</b>	<b>(211.0)</b>

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)
<b>(200.2)</b>	<b>Total grants credited to taxation and non-specific grant income</b>	<b>(211.0)</b>
(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)
<b>(200.9)</b>	<b>Total grants credited to services</b>	<b>(201.8)</b>
<b>(401.1)</b>	<b>Total grant income</b>	<b>(412.8)</b>

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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)	<b>Total DSG after academy and high needs recoupment for the year</b>	-	-	(94.8)
(0.7)	Brought forward from previous year	-	-	-
0.5	Less carry forward to following year agreed in advance	-	-	-
(90.8)	<b>Agreed initial budgeted distribution for the year</b>	(18.6)	(76.2)	(94.8)
-	In-year adjustments	-	0.2	0.2
-	<b>Final budgeted distribution for the year</b>	(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	<b>In year carry forward to following year</b>	0.8	-	0.8
(0.5)	Add carry forward agreed in advance	-	-	-
0.3	<b>Carried forward to following year</b>	-	-	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	<b>Total DSG unusable deficit reserve at the end of the year</b>	-	-	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
<b>(32.9)</b>	<b>30.8</b>	<b>(2.1)</b>	<b>20.9</b>	<b>9.9</b>	<b>Total</b>	<b>(33.0)</b>	<b>33.8</b>	<b>0.8</b>	<b>22.7</b>	<b>11.1</b>

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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.

## 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.

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
<b>95</b>	<b>90</b>	<b>185</b>	<b>Total number of employees over £50,000</b>	<b>117</b>	<b>118</b>	<b>235</b>

## 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	31	-	5	36
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
<b>Total</b>		<b>929</b>	<b>-</b>	<b>124</b>	<b>1,053</b>

## 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
<b>Total</b>		<b>780</b>	<b>123</b>	<b>118</b>	<b>1,021</b>

**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	-	-	-	-
<b>1</b>	<b>32</b>	<b>33</b>	<b>495</b>	<b>Total</b>	<b>2</b>	<b>17</b>	<b>19</b>	<b>240</b>

## 18. External audit costs

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

2021/22 £000		2022/23 £000
	<b>Fees relating to the current year</b>	
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
<b>199</b>	<b>Total current year fees</b>	<b>240</b>
	<b>Fees relating to prior years'</b>	
-	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
<b>20</b>	<b>Total prior years' fees</b>	<b>191</b>
<b>219</b>	<b>Total external audit fees</b>	<b>431</b>

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This note shows all audit fees which went through the ledger in 2022/23. Anticipated fees for 2022/23 were £240k (finalised at £159k), finalised fees for 2021/22 were £190k (of which £132k went through the ledger in 2022/23) and finalised fees for 2020/21 were £156k (of which £58k went through the ledger in 22/23).



### 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 buildings this is between 24 and 56 years). For those assets classed as vehicles, plant, furniture and equipment, useful economic lives are estimated to be 5 years, unless the individual asset life is known (e.g. the waste asset is 30 years). New assets are not subject to a depreciation charge in the year of acquisition.

## Revaluations

Asset categories are revalued at least every five years on a rolling basis in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards 2021 and UK National Supplement. Further revaluations are carried out where there have been material changes.

The council's valuations as at 31 March 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
<b>Cost or valuation</b>							
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	31.4	2.2	-	(1.5)	-	32.1	2.2
Reverse accumulated depreciation	(7.4)	(1.0)	-	-	-	(8.4)	(1.0)
Asset transfers	(1.3)	-	-	1.3	-	-	-
<b>Closing balance at 31 March</b>	<b>387.9</b>	<b>39.2</b>	<b>1.6</b>	<b>3.9</b>	<b>0.8</b>	<b>433.4</b>	<b>41.3</b>
<b>Depreciation</b>							
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
<b>Closing balance at 31 March</b>	<b>(0.6)</b>	<b>(4.4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5.0)</b>	<b>(0.5)</b>
<b>Closing net book value at 31 March</b>	<b>387.3</b>	<b>34.8</b>	<b>1.6</b>	<b>3.9</b>	<b>0.8</b>	<b>428.4</b>	<b>40.8</b>
<b>Opening net book value at 1 April</b>	<b>358.9</b>	<b>33.4</b>	<b>1.6</b>	<b>4.5</b>	<b>-</b>	<b>398.4</b>	<b>39.7</b>

## 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)
<b>Infrastructure assets closing net book value at 31 March</b>	<b>261.7</b>
Net book value of PPE excluding infrastructure assets	428.4
<b>Total net book value of PPE on the balance sheet at 31 March</b>	<b>690.1</b>

## 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
<b>Cost or valuation</b>							
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)	-
<b>Closing balance at 31 March</b>	<b>361.4</b>	<b>36.9</b>	<b>1.6</b>	<b>4.5</b>	<b>-</b>	<b>404.4</b>	<b>39.9</b>
<b>Depreciation</b>							
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	-
<b>Closing balance at 31 March</b>	<b>(2.5)</b>	<b>(3.5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6.0)</b>	<b>(0.2)</b>
<b>Closing net book value at 31 March</b>	<b>358.9</b>	<b>33.4</b>	<b>1.6</b>	<b>4.5</b>	<b>-</b>	<b>398.4</b>	<b>39.7</b>
<b>Opening net book value at 1 April</b>	<b>343.0</b>	<b>30.7</b>	<b>1.6</b>	<b>4.0</b>	<b>-</b>	<b>379.3</b>	<b>36.3</b>

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

## 19.2 Revaluations

The carrying amount of assets on the rolling programme held at 31 March 2023 total £462.5 million. The effective date of the revaluations are as follows:

<b>Valued as at</b>	<b>Carrying amount of revalued assets £m</b>
31 March 2023	404.2
31 March 2022	58.3
<b>Total</b>	<b>462.5</b>

### 19.3 Revaluation reserve

31 March 2022 £m		31 March 2023 £m
<b>(133.7)</b>	<b>Balance at 1 April</b>	<b>(147.9)</b>
(18.9)	Revaluations upwards	(27.6)
3.3	Revaluations downwards	4.1
0.5	Depreciation of revaluations	0.5
-	Disposal of revaluations	2.3
0.9	Asset transfers	-
<b>(147.9)</b>	<b>Balance at 31 March</b>	<b>(168.6)</b>

### 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
<b>Total</b>	<b>53.4</b>	<b>(8.6)</b>	<b>44.8</b>

## 19.7 Capital adjustment account

31 March 2022 £m		31 March 2023 £m
<b>(288.5)</b>	<b>Balance at 1 April</b>	<b>(308.5)</b>
	<b>Capital financing:</b>	
(4.8)	Capital receipts	(6.2)
(15.7)	Capital grants and contributions	(21.9)
(0.3)	Revenue contributions to capital expenditure	(0.6)
<b>(20.8)</b>	<b>Total capital financing</b>	<b>(28.7)</b>
(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
<b>(308.5)</b>	<b>Balance at 31 March</b>	<b>(303.3)</b>

## 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
	<b>Cost or valuation</b>	
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	-
<b>40.1</b>	<b>Closing balance at 31 March</b>	<b>41.9</b>

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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
<b>313.6</b>	<b>Opening capital financing requirement</b>	<b>308.4</b>
	<b>Capital investment</b>	
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
	<b>Sources of finance</b>	
(3.3)	Capital receipts	(4.6)
(6.8)	Loan fund principal	(1.6)
(22.3)	Government grants and other contributions	(31.6)
	<b>Sums set aside from revenue</b>	
-	Direct revenue contributions	(0.2)
(10.7)	Minimum revenue provision	(12.6)
<b>308.4</b>	<b>Closing capital financing requirement</b>	<b>304.4</b>
	<b>Explanation of movements in year</b>	
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)
<b>(5.2)</b>	<b>Adjusted to services</b>	<b>(4.0)</b>

## 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

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31 March 2022 £m		31 March 2023 £m
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
<b>36.0</b>	<b>Total</b>	<b>35.2</b>

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
<b>42.5</b>	<b>Total</b>	<b>25.5</b>
(2.3)	Bank current accounts	(2.2)
<b>40.2</b>	<b>Total</b>	<b>23.3</b>

## 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)
<b>(73.4)</b>	<b>Total</b>	<b>(59.3)</b>

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)
<b>(11.7)</b>	<b>Total</b>	<b>(15.7)</b>

## 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)	<b>Balance outstanding at 1 April</b>	<b>(5.7)</b>	<b>(9.2)</b>	<b>(25.1)</b>	<b>(40.0)</b>

**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
<b>Balance outstanding at 1 April</b>	<b>60.0</b>	<b>4.7</b>	<b>37.6</b>	<b>20.2</b>	<b>122.5</b>



## 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
<b>3.0</b>	<b>Total due in future years</b>	<b>3.2</b>

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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)
<b>(33.7)</b>	<b>Total due in future years</b>	<b>(35.0)</b>

## 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
<b>Total adjustments between accounting basis and funding basis under regulations</b>	<b>(17.9)</b>	<b>-</b>	<b>3.1</b>	<b>(3.2)</b>	<b>18.0</b>

## 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)
<b>Total adjustments between accounting basis and funding basis under regulations</b>	<b>16.4</b>	<b>-</b>	<b>1.4</b>	<b>(1.5)</b>	<b>(16.3)</b>

## 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)
<b>Total</b>		<b>(165.1)</b>	<b>55.0</b>	<b>(40.4)</b>	<b>(150.5)</b>

### 30. Movement in unusable reserves

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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	(27.6)	(168.6)
DSG adjustment account	Accumulated deficit on the dedicated schools grant	0.3	-	0.8	1.1
<b>Total</b>		<b>(177.6)</b>	<b>(265.6)</b>	<b>(6.5)</b>	<b>(449.7)</b>

**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)
<b>Total</b>		<b>(96.5)</b>	<b>40.3</b>	<b>(25.6)</b>	<b>(81.8)</b>

## 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
<b>(39.0)</b>	<b>Total adjustment for non-cash movements</b>	<b>(52.9)</b>

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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
<b>1.9</b>	<b>Total adjustment for investing and financing activities</b>	<b>26.4</b>

### 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
<b>25.5</b>	<b>Total cash flows from investing activities</b>	<b>(0.6)</b>

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
<b>0.4</b>	<b>Total cash flows from financing activities</b>	<b>11.4</b>



## 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

154 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
	<b>Comprehensive income and expenditure statement</b>	
	<b>Cost of services</b>	
22.5	Current service cost	25.5
0.1	(Gain)/loss from settlements and curtailments	-
-	Past service cost	0.1
	<b>Financing and investment income and expenditure</b>	
5.7	Net interest expense	7.4
0.2	Administration expenses	0.2
<b>28.5</b>	<b>Total post-employment benefit charged to the surplus/deficit on the provision of services</b>	<b>33.2</b>
	<b>Other comprehensive income and expenditure</b>	
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)
<b>(23.1)</b>	<b>Total post-employment benefit charged to other comprehensive income and expenditure</b>	<b>(266.6)</b>
	<b>Movement in reserves statement</b>	
(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

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### 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)
<b>272.6</b>	<b>Net liability arising from defined benefit obligation</b>	<b>23.7</b>

### 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)
<b>769.1</b>	<b>Closing balance at 1 April</b>	<b>555.9</b>

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## 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)
<b>496.5</b>	<b>Closing balance at 1 April</b>	<b>532.2</b>

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
	<b>Cash</b>		
-	Cash instruments	N	0.4
-	Cash accounts	N	3.6
-	Net current assets	N	3.8
	<b>Equity instruments</b>		
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
	<b>Property</b>		
3.5	UK property debt	N	5.7
2.3	Overseas property debt	N	3.8
21.9	UK property funds	N	36.2
	<b>Alternatives</b>		
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
	<b>Bonds</b>		
7.0	LGPS central global pooled funds	Y	6.4
8.0	UK government fixed	Y	7.4
<b>496.5</b>	<b>Closing fair value of scheme assets</b>		<b>532.2</b>

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## 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
	<b>Mortality assumptions</b>	
	<b>Longevity at 65 for current pensioners (in years)</b>	
22.6	Men	22.0
25.0	Women	24.2
	<b>Longevity at 65 for future pensioners (in years)</b>	
24.1	Men	23.3
27.0	Women	26.1
	<b>Financial assumptions</b>	
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)
<b>273.3</b>	<b>Balance at 31 March</b>	<b>24.1</b>
272.6	Local government pension scheme	23.7
0.7	Teachers pension scheme	0.4
<b>273.3</b>	<b>Balance at 31 March</b>	<b>24.1</b>



## 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
			<b>Interest payable and similar charges</b>			
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	<b>Total expenditure in surplus/deficit on the provision of services</b>	7.0	-	7.0
			<b>Interest receivable</b>			
-	(2.6)	(2.6)	On loans	-	(4.4)	(4.4)
-	(2.6)	(2.6)	<b>Total income in surplus/deficit on the provision of services</b>	-	(4.4)	(4.4)
8.6	(2.6)	6.0	<b>Net (gain)/loss for the year</b>	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.

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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	-
<b>38.9</b>	<b>36.5</b>	<b>Total long term debtors</b>	<b>37.3</b>	<b>34.6</b>
43.0	43.0	Short term investments	37.7	37.7
<b>43.0</b>	<b>43.0</b>	<b>Total short term investments</b>	<b>37.7</b>	<b>37.7</b>
42.5	42.5	Cash and cash equivalents	25.5	25.5
<b>42.5</b>	<b>42.5</b>	<b>Total cash and cash equivalents</b>	<b>25.5</b>	<b>25.5</b>
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)	-
<b>36.0</b>	<b>32.4</b>	<b>Total short term debtors</b>	<b>35.2</b>	<b>29.4</b>
<b>160.4</b>	<b>154.4</b>	<b>Total assets</b>	<b>135.7</b>	<b>127.2</b>

## 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)
<b>(2.3)</b>	<b>(2.3)</b>	<b>Total cash and cash equivalents</b>	<b>(2.2)</b>	<b>(2.2)</b>
(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)
<b>(7.8)</b>	<b>(7.8)</b>	<b>Total short term borrowing</b>	<b>(4.0)</b>	<b>(4.0)</b>
(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)	-
(0.8)	-	Short term creditors – funds and deposits held	(0.9)	-
<b>(73.4)</b>	<b>(39.5)</b>	<b>Total short term creditors</b>	<b>(59.3)</b>	<b>(25.3)</b>
(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)
<b>(123.0)</b>	<b>(123.0)</b>	<b>Total long term borrowing</b>	<b>(119.9)</b>	<b>(119.9)</b>
(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)	-
<b>(317.7)</b>	<b>(44.5)</b>	<b>Total other long term liabilities</b>	<b>(64.1)</b>	<b>(40.0)</b>
<b>(524.2)</b>	<b>(217.1)</b>	<b>Total liabilities</b>	<b>(249.5)</b>	<b>(191.4)</b>

## 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.

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
			<b>Financial assets</b>				
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
<b>154.4</b>	<b>154.4</b>	<b>154.4</b>	<b>Total financial assets</b>		<b>127.2</b>	<b>127.2</b>	<b>127.2</b>
			<b>Financial liabilities</b>				
(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	(25.3)	(25.3)	(25.3)
(44.5)	(56.9)	(56.9)	PFI liabilities and finance leases	2	(40.0)	(47.4)	(47.4)
<b>(217.1)</b>	<b>(276.2)</b>	<b>(255.0)</b>	<b>Total financial liabilities</b>		<b>(191.4)</b>	<b>(203.5)</b>	<b>(190.6)</b>

## 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.

16) 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
<b>11.4</b>	<b>Total</b>	<b>11.0</b>

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:

<b>31 March 2022</b> <b>£m</b>		<b>31 March 2023</b> <b>£m</b>
(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)
<b>(130.8)</b>	<b>Total</b>	<b>(123.9)</b>

**Market risk**

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

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

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

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and is considered at quarterly strategy meetings with the council’s treasury advisors. The council sets an annual treasury management strategy which includes analysing future economic interest rate forecasts. This analysis will advise whether new borrowing taken out is fixed or variable and, where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The table below demonstrates the financial effect of a 1% increase in interest rates at 31 March 2023.

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

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# 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
	<b>420.7</b>	<b>(244.0)</b>	<b>176.7</b>	<b>Net cost of services</b>	<b>485.8</b>	<b>(257.1)</b>	<b>228.7</b>
	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)	<b>(200.2)</b>	Taxation and non-specific grant income	-	(211.0)	<b>(211.0)</b>
	<b>442.9</b>	<b>(451.3)</b>	<b>(8.4)</b>	<b>(Surplus)/deficit on the provision of services</b>	<b>509.5</b>	<b>(476.9)</b>	<b>32.6</b>
			<b>(15.7)</b>	(Surplus)/deficit on revaluation of non-current assets			<b>(23.6)</b>
			<b>(23.2)</b>	Re-measurement of the net defined benefit liability			<b>(266.5)</b>
			<b>(38.9)</b>	<b>Other comprehensive (income) and expenditure</b>			<b>(290.1)</b>
			<b>(47.3)</b>	<b>Total comprehensive (income) and expenditure</b>			<b>(257.5)</b>

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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	690.1
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
<b>764.3</b>	<b>Long term assets</b>	<b>773.6</b>
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
<b>127.4</b>	<b>Current assets</b>	<b>104.2</b>

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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)
<b>(89.8)</b>	<b>Current liabilities</b>	<b>(72.8)</b>
(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)
<b>(455.9)</b>	<b>Total long term liabilities</b>	<b>(201.5)</b>
<b>346.0</b>	<b>Net assets</b>	<b>603.5</b>
(168.4)	Usable reserves	(153.8)
(177.6)	Unusable reserves	(449.7)
<b>(346.0)</b>	<b>Total reserves</b>	<b>(603.5)</b>

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
<b>Balance at 31 March 2021</b>	(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)	-
<b>Net (increase)/decrease before transfers</b>	<b>(7.8)</b>	-	<b>(7.8)</b>	-	-	<b>(7.8)</b>	<b>(38.9)</b>	<b>(46.7)</b>	<b>(0.6)</b>	<b>(47.3)</b>
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	-	-	-	-	-	-	-	-
<b>(Increase)/decrease in year</b>	<b>(0.5)</b>	<b>9.1</b>	<b>8.6</b>	<b>1.4</b>	<b>(1.5)</b>	<b>8.5</b>	<b>(55.2)</b>	<b>(46.7)</b>	<b>(0.6)</b>	<b>(47.3)</b>
<b>Balance at 31 March 2022</b>	<b>(9.6)</b>	<b>(96.5)</b>	<b>(106.1)</b>	<b>(43.2)</b>	<b>(15.8)</b>	<b>(165.1)</b>	<b>(177.6)</b>	<b>(342.7)</b>	<b>(3.3)</b>	<b>(346.0)</b>
Total comprehensive income and expenditure	17.9	-	17.9	-	-	17.9	(290.1)	(272.2)	14.7	(257.5)
Adjustments between group accounts and authority accounts	14.7	-	14.7	-	-	14.7	-	14.7	(14.7)	-
<b>Net (increase)/decrease before transfers</b>	<b>32.6</b>	-	<b>32.6</b>	-	-	<b>32.6</b>	<b>(290.1)</b>	<b>(257.5)</b>	-	<b>(257.5)</b>
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	-	-	-	-	-	-	-	-
<b>(Increase)/decrease in year</b>	<b>-</b>	<b>14.7</b>	<b>14.7</b>	<b>3.1</b>	<b>(3.2)</b>	<b>14.6</b>	<b>(272.1)</b>	<b>(257.5)</b>	<b>-</b>	<b>(257.5)</b>
<b>Balance at 31 March 2023</b>	<b>(9.6)</b>	<b>(81.8)</b>	<b>(91.4)</b>	<b>(40.1)</b>	<b>(19.0)</b>	<b>(150.5)</b>	<b>(449.7)</b>	<b>(600.2)</b>	<b>(3.3)</b>	<b>(603.5)</b>

## 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
<b>(46.7)</b>	<b>Net cash flows from operating activities</b>	<b>6.8</b>
25.5	Net cash flows from investing activities	(0.6)
0.4	Net cash flows from financing activities	11.4
<b>(20.8)</b>	<b>Net (increase)/decrease in cash and cash equivalents</b>	<b>17.6</b>
24.6	Cash and cash equivalents at 1 April	45.4
45.4	Cash and cash equivalents at 31 March	27.8
<b>20.8</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(17.6)</b>

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## G1. Introduction

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

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

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

## G2. Basis of consolidation

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

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

### G3. Financial performance of the subsidiary

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

Comprehensive income and expenditure statement	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:

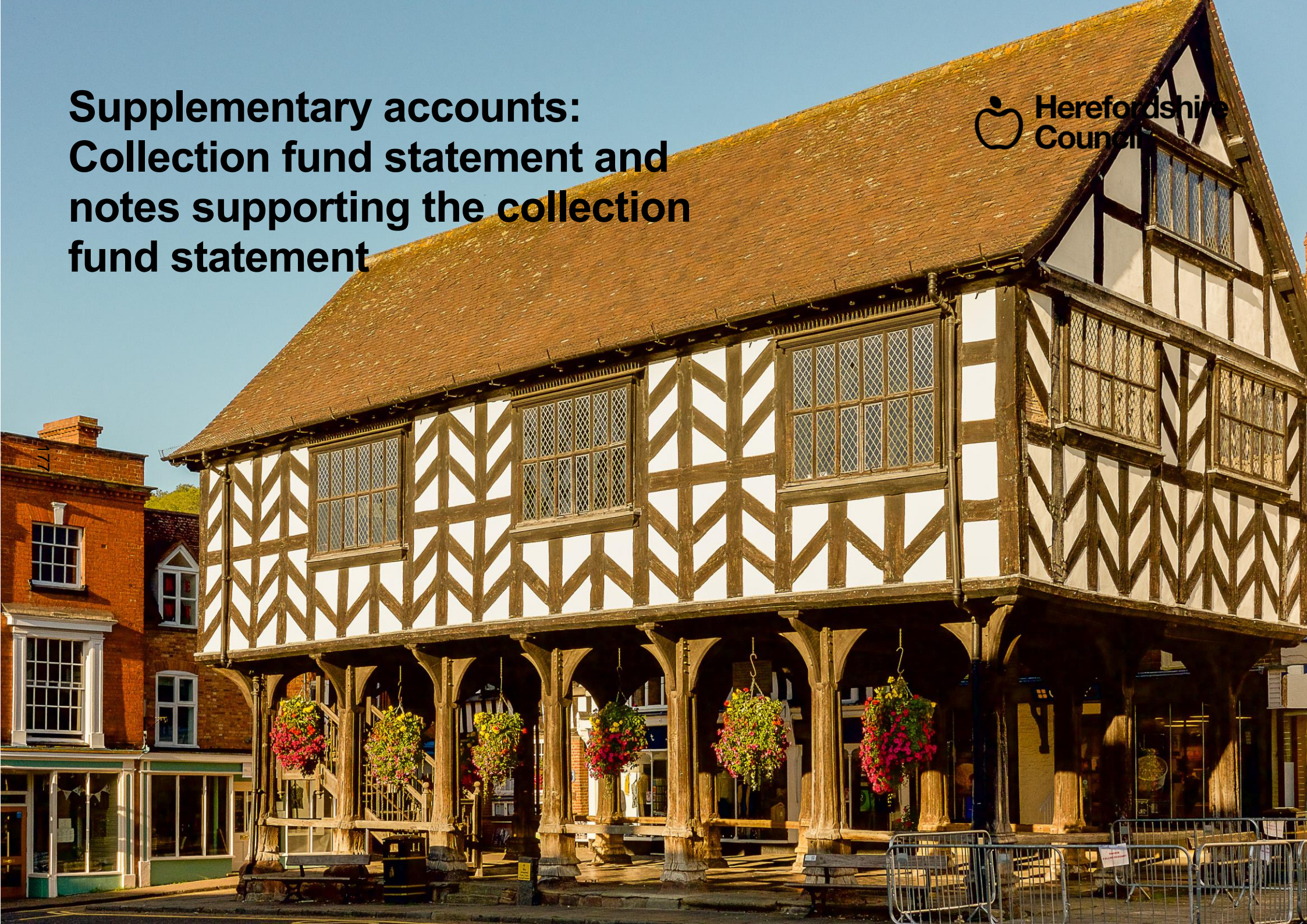
#### Taxation

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.

<sup>176</sup> A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.



# 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
	<b>Amounts required to be credited to the collection fund</b>				
144.7	Council tax	C2	150.8	-	150.8
33.6	Business rates income	C1	-	43.1	43.1
0.4	Transitional protection payments receivable		-	-	-
	<b>Contribution towards previous year's deficit</b>				
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
<b>204.7</b>	<b>Total</b>		<b>150.8</b>	<b>56.7</b>	<b>207.5</b>
	<b>Amounts required to be debited from the collection fund</b>				
	<b>Precepts, demands and shares</b>				
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
	<b>Contribution towards previous year's surplus</b>				
-	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
	<b>Charges to collection fund</b>				
0.3	Cost of collection allowance		-	0.3	<b>0.3</b>
0.2	Write offs of uncollectable debt		0.1	-	<b>0.1</b>
0.9	Increase/(decrease) of bad debt provision		0.6	0.3	<b>0.9</b>
(4.5)	Changes in provision for appeals		-	0.1	<b>0.1</b>
0.6	Other transfers to the general fund		-	0.7	<b>0.7</b>
<b>184.0</b>	<b>Total</b>		<b>150.7</b>	<b>39.7</b>	<b>190.4</b>
<b>20.7</b>	<b>Surplus/(deficit) for the year</b>		<b>0.1</b>	<b>17.0</b>	<b>17.1</b>
<b>(27.3)</b>	<b>Balance bought forward</b>		<b>4.0</b>	<b>(10.6)</b>	<b>(6.6)</b>
<b>(6.6)</b>	<b>Balance carried forward</b>	<b>C3</b>	<b>4.1</b>	<b>6.4</b>	<b>10.5</b>

## 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.

<b>Business rates income</b>	<b>2022/23 £m</b>
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)
<b>Total</b>	<b>43.1</b>

## 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
<b>Total</b>			<b>70,252.52</b>

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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)
<b>Total</b>	<b>150.8</b>

**C3. Collection fund surplus/(deficit)**

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

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



# 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.

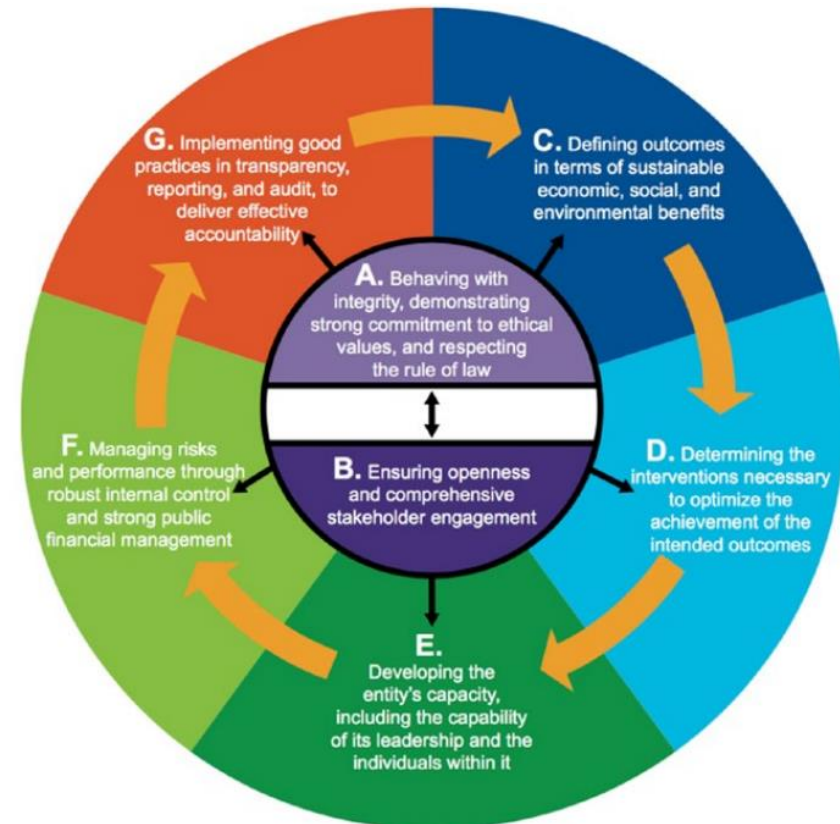
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## The purpose of the Governance Framework

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.

**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.

194 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: 24/10/2023**

**Jonathan Lester**  
**Leader of the Council**  
**Date: 24/10/2023**

## Independent auditor's report to the members of Herefordshire Council

### Report on the audit of the financial statements

#### Opinion on financial statements

We have audited the financial statements of Herefordshire Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the, the Cash Flow Statement, the notes to the financial statements, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Movement in Reserves Statement, the Group Cash Flow Statement and notes to the group financial statements and the Collection Fund Statement, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's and the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

## **Other information**

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The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

## **Opinion on other matters required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

197 We have nothing to report in respect of the above matters.

## **Responsibilities of the Authority and the Chief Finance Officer**

As explained more fully in the Statement of Responsibilities set out on page 17, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 1972, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012, and the Local Government Act 2003).

We enquired of management and the Audit and Governance committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit and Governance committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, and of fraudulent recognition of revenue and expenditure. We determined that the principal risks were in relation to journal entries outside of the normal course of business and significant management estimates, in particular those relating to land and buildings valuations (including valuations of investment property) and the valuation of the net pension fund liability. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on unusual and high-risk journals made at the year-end accounts production stage;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment properties, and defined benefit pensions liability valuations; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.



We communicated relevant laws and regulations and potential fraud risks to all engagement team members. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's [and component auditor's].

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector in which the group and Authority operates
- understanding of the legal and regulatory requirements specific to the Authority and group including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

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For components at which audit procedures were performed, we requested component auditors report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

### **Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

## Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

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We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

## Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Herefordshire Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2023.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023.

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Peter Barber, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

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"> <li>a) it is not probable that an outflow of resources embodying economic benefits or</li> <li>b) services potential will be required to settle the obligation, or</li> <li>c) the amount of the obligation cannot be measured with sufficient reliability.</li> </ol>

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"> <li>a) In the form of materials or supplies to be consumed in the production process</li> <li>b) In the form of materials or supplies to be consumed or distributed in the rendering of services</li> <li>c) Held for sale or distribution in the ordinary course of operations, or</li> <li>d) In the process of production for sale or distribution</li> </ul>
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"> <li>a) revalued downwards or impaired and the gains are lost</li> <li>b) used in the provision of services and the gains are consumed through depreciation, or</li> <li>c) disposed of and the gains are realised.</li> </ul> <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	<p>The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.</p>
Short term absences account	<p>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.</p>





Grant Thornton UK LLP  
2 Glass Wharf  
Temple Quay  
Bristol  
BS2 0EL

Dear Sirs

**Herefordshire Council  
Financial Statements for the year ended 31 March 2023 - Letter of Representation**

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council and its subsidiary undertaking Hoople Limited for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include PPE valuations investment property valuations, pensions liability and NNDR provision. We

are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the group and Council financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the group and Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. There are no prior period errors to bring to your attention.
- xiv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
  - a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of

accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

- b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

- xv. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.
- xvi. We have considered whether the Council is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised on the grounds that:
  - a. The key indicators for a significant or group equal pay liability are not risk factors for the council as it does not operate task and finish shift systems or employ workers in occupational groups which may lead to equal pay claims;
  - b. Any individual equal pay claims are dealt with on a case by case basis; and
  - c. The Council is not aware of any current or outstanding group or individual equal pay claims.

### **Information Provided**

- xvii. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.
- xviii. We have communicated to you all deficiencies in internal control of which management is aware.
- xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or

- c. others where the fraud could have a material effect on the financial statements.
- xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

### **Annual Governance Statement**

- xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

### **Narrative Report**

- xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

### **Approval**

Delegation to approve this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 24 October 2023.

Yours faithfully

<b>Name</b>	Andrew Lovegrove
<b>Position</b>	Director of Resources & Assurance
<b>Date</b>	24 October 2023

# Title of report: Internal Audit Update Report Quarter 2 2023-24

**Meeting: Audit and Governance Committee**

**Meeting date: Tuesday 24<sup>th</sup> October 2023**

**Report by: Chief Financial Officer/ Head of Internal Audit**

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

(All Wards);

## **Purpose**

To update members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed. To 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)**

- (a) Review the areas of activity and concern and be satisfied that necessary improvements are outlined and delivered;**
- (b) 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 Committee should consider the report to gain assurance that, from the work undertaken by Internal audit, the Council have a robust internal control environment that effectively manages risk.
3. The internal audit progress report is attached at appendix A.
4. A glossary of terms is provided in the report

## **Community impact**

5. 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**

6. 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.
7. 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**

8. 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.

- 9. 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**

- 10. 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**

- 11. None.

### **Risk management**

- 12. 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.
- 13. 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 Councils Corporate Performance Team.

### **Consultees**

- 14. None

### **Appendices**

Appendix A – SWAP Internal Audit Update Report Quarter 2 2023-24

### **Background papers**

None identified



## Appendix A

# Herefordshire Council

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## Internal Audit Update Report As @ 30<sup>th</sup> September 2023






Publication Date: 13<sup>th</sup> October 2023

**Internal Audit ■ Risk ■ Special Investigations ■ Consultancy**

# Internal Audit Update Report @ end of Quarter 2 2023/24

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.

Indicative 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	1
		Priority 2	Important	14
		Priority 3	Requires Attention	16

The Headlines for audits completed or planned to date for 2023/24	
	<b>Coverage</b> – The coverage maps show a clear alignment with corporate goals. More coverage maps are on the horizon and the outputs will mature as the team further integrates the new audit management system.
	<b>Activity</b> -38 assignments are complete or in progress at the end of Quarter 2 The delivery of internal audit work is on track to deliver an annual opinion.
	<b>Outcomes</b> – 92% of the opinion related work found the control environment to be either Substantial or Reasonable assurance. There are no significant corporate risks to be reported.
	<b>Issues</b> – 55% of the issues identified were associated with a root cause of the design of systems, policies and processes.
	<b>Quality</b> – Internal Audit work either met or exceeded expectation in 92% of audits completed.

Assurance Opinions as @ Q2	
Substantial	1
Reasonable	11
Limited	1
No Assurance	0
Special/ Advisory	9

Progress/ Plans as @ Q2	
Complete	22
In Progress	16
Waiting to Go Live	5
Future Proposed	18

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# Internal Audit Update Report @ end of Quarter 2 2023/24

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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.

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.

Differing views of coverage will be presented to future meeting of the Audit & Governance Committee.

## Internal Audit Work Programme and Coverage

We have assessed internal audit coverage based on the corporate priorities taken from Herefordshire Council's County Plan 2020-24. Please note as future proposed audits are not scoped yet there is potential for coverage to increase.

In partnership with  **ROLLING AUDIT PLAN as at:** 13/10/2023 

Corporate Priority	Coverage (Completed Audits)	Average Opinion of Completed Audits
HC P01 - Environment - Protect and enhance our environment and keep Herefordshire a great place to live	Adequate	Reasonable
HC P02 - Community - Strengthen communities to ensure everyone lives well and safely together	Good	Reasonable
HC P03 - Economy - Support an economy which builds on the county's strengths and resources	Adequate	Reasonable

Assurance	Description
Substantial	Sound system of governance, risk management and controls exist
Reasonable	Generally sound system of governance, risk management and control in place
Limited	Significant gaps, weaknesses or non-compliance were identified
No Assurance	Fundamental gaps, weaknesses or non-compliance identified

Coverage	Description
Good	Good audit coverage completed
Adequate	Adequate audit coverage completed
Some	Some aspects of audit coverage completed
In Progress	Some aspects of audit coverage in progress
None	No audit coverage to date

NB

• Hover over the description for further details

NB

- Only includes audits completed within past 2 years from current date
- Audits completed over 1 year from current date have a reduced impact on audit coverage

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.

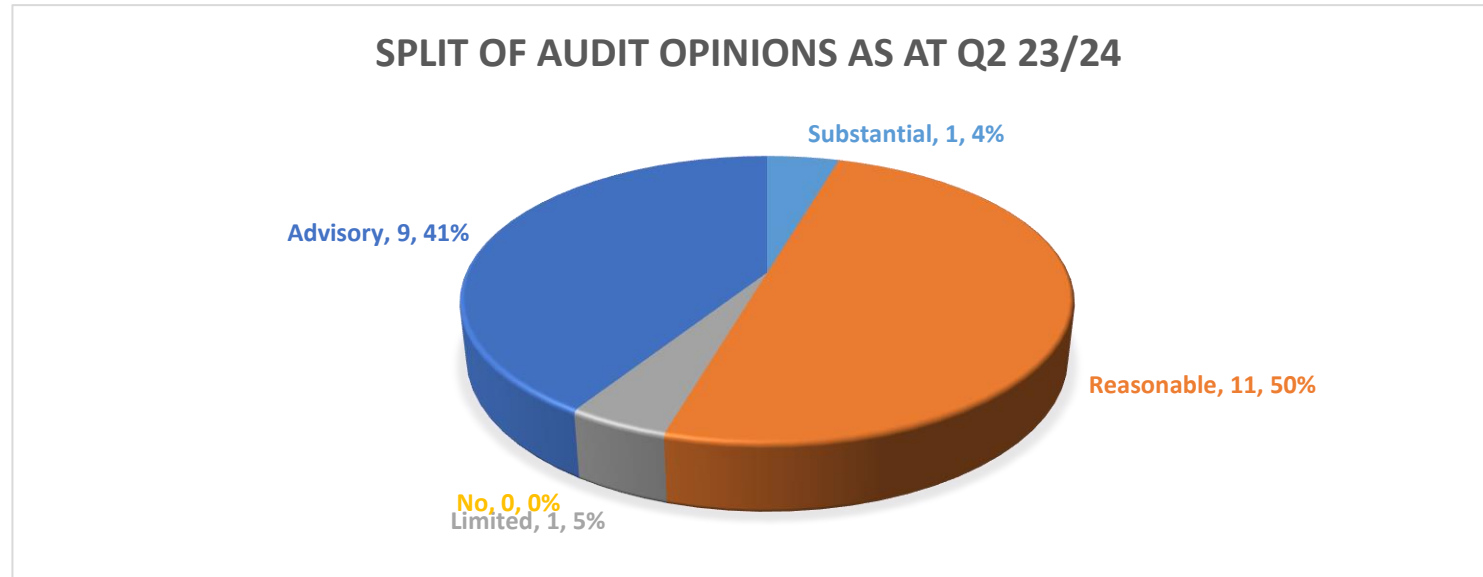
We also undertake Advisory / Non-Opinion work on a consultancy basis where we have been asked to look at a specific area of potential concern



## 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.

38 assignments have been completed or are in progress. A special investigation is still being in progress at the end of Quarter 2. These are shown in more detail in Annex 2.



# Internal Audit Plan Progress 2022/23

There are no significant corporate risks that should be brought to the Committees attention for Quarter 2.



## Significant Corporate Risks 2023/24

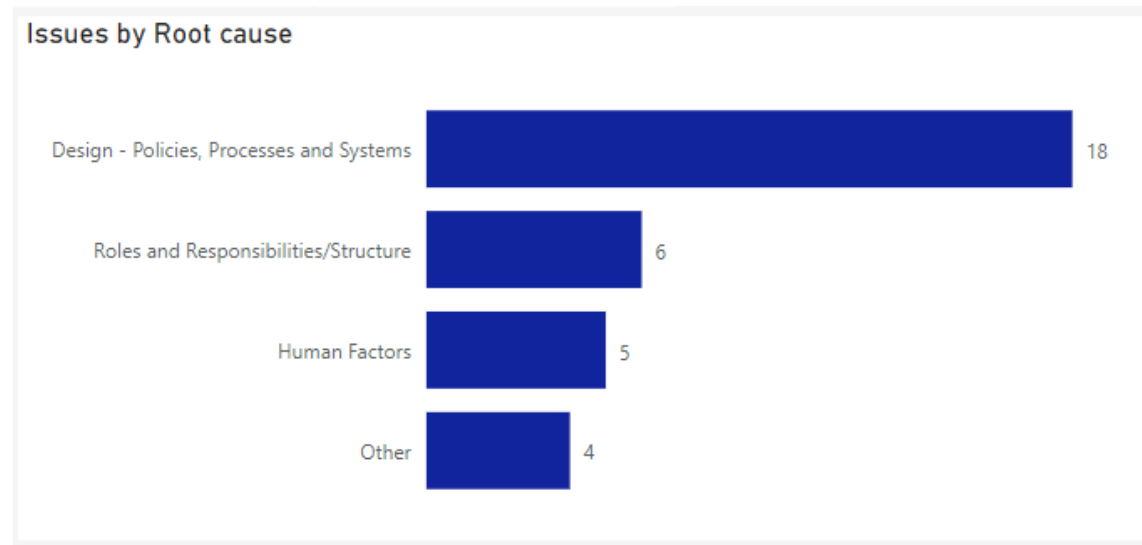
In this update, there are no final reports included with 'High' corporate risks or "No/Limited" assurance opinions.

Root cause is defined as the fundamental reason for the cause of the occurrence. The graphic categorises the issues found into root causes.



## Root Cause

It is not unexpected that the majority of issues fall into the category of policies, processes and systems as this is an area of internal audit focus.



Further analysis will be reported to Members that splits root cause by Directorate and by a Healthy Organisation.

Design – policies, processes, systems can be a root cause when the processes management have designed with which to control risk have been somewhat ineffective in controlling, or even failed to control, the material risks presented. Our recommendation therefore helps to strengthen, or even replace, the incumbent risk control processes/framework.



# Internal Audit Progress Report @ Q2 2023/24

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
Section 106	Complete	Actions remediated - No significant risks
Pool Cars	Complete	Significant progress- Minimal risk
Building Maintenance & Cleaning	Complete	Significant Progress- Minimal risk
Education Healthcare	Complete	Actions Remediated – No significant risks
Disaster Recovery	Complete	Actions Remediated – No significant risks
Disaster Recovery, Public Realm Contracts	In Progress	
Registration Service, Housing- Financial Processes	Planned Q3 & Q4	



## Quality Assurance

The client feedback shows that internal audit work adds value.

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 92% reflects 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.

Audit Scope	Auditor Professionalism and Conduct	Communication, Timeliness and Findings	Audit Value	Demonstrating our Values
100%	92%	90%	100%	100%

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## Internal Audit Progress Report @ Q2 2023/24

### 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](mailto:ian.halstead@swapaudit.co.uk)

**Janine Davies**

Principal Auditor

[Amy.Probert@swapaudit.co.uk](mailto:Amy.Probert@swapaudit.co.uk)

For further details see: [www.swapaudit.co.uk](http://www.swapaudit.co.uk)

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## 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.

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### ROLLING AUDIT PLAN as at:

13/10/2023



Filter by Audit Period

All

'COMPLETED' audits

Audit Title	Assurance Opinion	Number of Actions & Priority			Corporate Risk Assessment	Final Report Date
		1	2	3		
HC - Local Transport Capital Block Funding Grant 2022/23	Reasonable (Medium)				Low	29/09/2023
HC Bus Subsidy Grant 2022/23	Grant Certification	1	1		N/A	29/09/2023
HC Education Health Care Plan Follow Up	Follow Up				N/A	29/09/2023
HC Supporting Families Q2 2023/24	Reasonable (Medium)			1	Low	29/09/2023
HC - Biodiversity Net Gain Grant Determination 2022/23, Grant No.:31/6499	Reasonable (Medium)				Low	28/09/2023
HC Disaster Recovery - Follow Up	Follow Up				N/A	20/09/2023
HC Housing England Compliance Audit 2023/24	Grant Certification				Low	20/09/2023
HC Whistleblowing	Reasonable (High)		3	1	Low	28/07/2023
HC Home Upgrade Grant HUG 1 - 31/5775	Reasonable (Medium)				Low	27/07/2023
Audit #1382						25/07/2023
HC Green Homes Grant HUG 2 Mobilisation- 31/6400 - 2022/23	Reasonable (Medium)				Low	21/07/2023
HC Supporting Families Q1 2023/24	Reasonable (Medium)				Low	17/07/2023
HC S106 Agreement Follow up	Follow Up			1	N/A	20/06/2023
HC Whitbourne S106 Follow Up	Follow Up				N/A	16/06/2023
HC Building Maintenance and Cleaning Agreement Follow Up	Follow Up				Low	15/05/2023
HC DFG 2021/22	Reasonable (High)				Low	15/05/2023
HC Main Accounting	Reasonable (High)		1		Low	25/04/2023

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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 Progress Report @ Q2 2023/24



## ROLLING AUDIT PLAN as at:

13/10/2023



Filter by Audit Period

'COMPLETED' audits

Audit Title	Assurance Opinion	Number of Actions & Priority			Corporate Risk Assessment	Final Report Date
		1	2	3		
HC Supporting Families Q4 2022/23	Reasonable (Medium)				Low	25/04/2023
HC Housing Solutions Team Financial Processes	Limited (Medium)		5	5	Medium	13/04/2023
HC Pool Cars Follow Up	Follow Up				Low	11/04/2023
HC NNDR 2022/23	Reasonable (High)			4	Low	06/04/2023
HC Treasury Management	Substantial (Low)			2	Low	03/04/2023

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# Internal Audit Progress Report @ Q2 2023/24



**ROLLING AUDIT PLAN as at:**

13/10/2023



**All 'IN PROGRESS' audits**

**Audit Progress**

Audit Title	Fieldwork Complete				Draft Report Issued	Final Report Issued	Type of Work	Fieldwork Start Date
	25%	50%	75%	100%				
HC Direct Payments Support Services: Managed Accounts							Assurance	01/10/2023
HUG2 (Ph.2) Grant - Contract Status Review	█	█	█				Advisory	12/09/2023
HC Destination Bid Lessons Learned (Hereford (DBID))	█						Assurance	11/09/2023
HC ICT Backup	█	█	█				ICT	09/08/2023
HC Green Homes Grant LAD 3 31/5775	█	█	█				Grant Certification	01/08/2023
HC Payroll	█	█	█	█			Assurance	25/07/2023
HC Blue Badge	█	█	█	█	█		Assurance	18/07/2023
HC - Data Breaches	█						Assurance	22/05/2023
HC Follow up of Public Realm/BBLP Related Audits	█	█	█	█			Follow up	21/04/2023
HC Budgetary Control Forecasted Costs for Placements	█	█	█	█			Assurance	13/04/2023
HC - Fraud Advice Code 2023-24	█	█					Advisory	01/04/2023
HC Taskforce -Commissioning & Resources Delivery Board 2023/24	█	█	█				Advisory	01/04/2023
HC Taskforce Service and Practice Delivery Board 2023/24	█	█	█				Advisory	01/04/2023
HC Taskforce Workforce Delivery Board 2023/24	█	█	█				Advisory	01/04/2023
HC - P- Card Proactive Fraud Review	█	█					Proactive fraud work	13/03/2023
HC Accounts Payable	█	█	█	█			Assurance	19/01/2023

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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 Progress Report @ Q2 2023/24



**ROLLING AUDIT PLAN as at:**

13/10/2023



**'WAITING TO GO LIVE' audits**

Audit Title	Type of Work	Background
HC - Herefordshire Enterprise Zone (HEZ)	Assurance	As the Herefordshire Enterprise Zone
HC All Ages Commissioning - Use of Spot Purchasing (was HC All Ages Services - Commissioning)	Assurance	Scoping in progress, audit brief to be drafted. To review the processes and procedures in place regarding the use of spot purchasing in Childrens and Young People's and Adults and Community, provide assurance the Council has a robust control framework in place ensuring spot purchasing is only utilised when other commissioning routes are not viable.
HC Commissioning All Ages - Performance and Monitoring	Assurance	Scoping in progress, audit brief to be drafted. Provide assurance that robust processes are in place to allow for effective contract management.
HC Safeguarding Checks	Assurance	Scoping in progress, audit brief to be drafted. Review control framework regarding safe recruitment and working practices, role of the Local Authority Designated Officer and referrals to Disclosure and Barring Service.
HC Supporting Families Q3 2023/24	Grant Certification	Grant work requiring quarterly review and sign off for DLUHC

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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.





### 'FUTURE PROPOSED' audits

Audit Title	Type of Work	Priority	Background
HC - Financial Resilience Checks	Assurance	Higher priority	Following concerns raised during a recent grant aided project where issues were identified about the appointment of the main contractor who was subsequently found to have indicators of financial instability
HC - Management of Temporary Employees	Assurance	Higher priority	To review the the process of the appointment and management of longer term temporary employments
HC Grants Working Group	Advisory	Higher priority	
HC Polygamous/Dual Employment	Assurance	Higher priority	Review control framework around recruitment and management of staff to ensure the Council has controls in place to reduce the risk of dual employment.
HC - Procurement Frameworks	Assurance	Medium priority	To review to the Council create and review its framework contracts (DPS)
HC - Recruitment, Retention and Talent Management	Assurance	Medium priority	To ensure that the Council has a capable and resilient workforce by recruiting people with appropriate skills to key posts and promoting talent to retain key skills.
HC Data Maturity Assessment	Assurance	Medium priority	Request for audit from CLT in response to thematic issue raised in Internal Audit Progress Reports 2021/22.
HC Risk Management	Assurance	Medium priority	Concerns expressed around the lack of information on the Risk Registers, particularly around the mitigation of risks, lack of movement on risk rating and whether there is a consistent approach to risk management across directorates. Will also review the Council's approach to risk appetite
HC Supporting Families Q4 2023/24	Grant Certification	Medium priority	Grant work requiring quarterly review and sign off for DLUHC

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## 'FUTURE PROPOSED' audits



Audit Title	Type of Work	Priority	Background
HC - Tender Evaluation Process	Assurance	Lower priority	government grants. To review the tender evaluation and scoring and decision process to ensure there is diligence around the appointment of contractors.
HC Active Travel Plans - Public Transport	Assurance	Lower priority	To review the controls and governance in the delivery of the active travel plans.
HC Debtors (Accounts Receivable)	Assurance	Lower priority	Key Financial Control Assurance Work
HC Main Accounting	Assurance	Lower priority	Key Financial Control Work
HC Planning Enforcement	Assurance	Lower priority	Review the effectiveness of the measures to control unapproved buildings.
HC School Establishment Audits	Assurance	Lower priority	Undertaken School self-assessment as pilot exercise to measure good governance and financial management
HC Security Assurance Framework Review (SAFR)	ICT	Lower priority	In order to provide assurance over the current high-level approach to security, SWAP will undertake a Security Assurance Framework Review which examines 18 high level key controls ranging from the security policy framework to controls protecting the network perimeter. No detailed testing is undertaken however a high-level assurance opinion on risk is stated which can be a useful reporting tool for committees and for ICT audit planning going forward. This can also highlight areas of security where a full risk-based assurance review by SWAP is required.
HC Sustainable Procurement	Assurance	Lower priority	To determine how the principles of sustainability are considered in procurement.
HC Waste Strategy Contract	Assurance	Lower priority	To review the controls and governance in the delivery of the waste management strategy

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### 'DEFERRED' audits

Audit Title	Rationale for Deferment
HC - Proactive Fraud Work Tax Evasion	Temporarily deferred as HMRC are currently carrying out their own review at the Council.
HC - Social Care Reform: Follow Up of ADASS Readiness Review	Deferred to start of Q3, as per mtg.: H. Hall/J. Davies 27/7/23. See additional background notes. Slight change to scope.
HC Fostering	11/08/2023 - Agreed to pause audit temporarily until the Budgetary Control Forecasted Costs for Placements audit is completed as there is an overlap of scope.
HC Staff Car Parking Business Passes – Follow Up	Due to unforeseen circumstances this follow up is being deferred indefinitely. Partner has been emailed to continue working on the actions and keep audit informed with updates.

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# **Title of report: Whistleblowing - Internal Audit Findings and Report**

**Meeting: Audit and Governance Committee**

**Meeting date: Tuesday 24 October 2023**

**Report by: Head of Legal Services and Deputy Monitoring Officer**

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

(All Wards);

## **Purpose**

A report to update the Committee on Internal Audit finds on the operation of the Whistleblowing Policy.

## **Recommendation(s)**

**That:**

- a) **That the Committee note the findings of Internal Audit; and**
- b) **Notes the changes in the operation and reporting underpinning the Whistleblowing Policy.**

## **Alternative options**

1. There are no alternatives. The Council has committed to operating a Whistleblowing process and correctly reviews and improves both the Policy and process as necessary.

## Key considerations

2. The Audit and Governance Committee recently revised and adopted the Whistleblowing Policy (WP) on behalf of the Council. At the same meeting the Committee heard that the process was being audited by the Council's internal audit function and requested an update as to the outcome.

### SWAP Audit

3. The audit was performed by the Council's internal audit partner SWAP between 09 May 2023 and 28 July 2023. The response to the audit was provided by the Council's Head of Legal Service and Governance solicitor.
4. The terms of the audit is included as Appendix 1 after discussion with previous chair/deputy chair of the Committee. This included:
  - a. Visibility and content of the policy;
  - b. Response procedures;
  - c. Staff training and compliance;
  - d. Security of case files; and
  - e. Corporate reporting requirements.
5. The quality of the Council's response was limited by:
  - the time period covered by the audit covered matters that were up to two years prior to the current financial year;
  - the limited role that the governance team plays in the process – only to ensure that complaints are received and investigated by the relevant parts of the Council;
  - there were no Council officers within the governance function that dealt with the matters for the period in questions; and
  - the high number of staff turnover and the record keeping were such that sometimes only incomplete information was available for disclosure to the auditors.
6. The outcome to the audit was issued on 10 July 2023. There were 4 findings as a result of the review:
  - a. Whistleblowing (WB) awareness: audit noted the training in WB but considered that there should be further communications to raise the awareness of the policy with officers. It was agreed that reminders would be issued in the CEO updates but this would be limited to at least an annual update so not to lessen its impact. This was done on 21 July 2023 and is scheduled for January 2024 (thereafter at 12 month intervals). This action was considered to be complete by audit close.
  - b. Corporate Tracker: audit noted that there was a tracking of cases but this was incomplete for the period in question. There was no indication that matters hadn't been completed but this was not registered in full on the tracking system. It was noted that the tracker was now fully completed since February 2023. This action was considered to be complete by audit close.

- c. Response Procedures: the previous WP did not provide guidance on process to the individual officers in reviewing a WB complaint. The new WP provides assistance but also guidance on how to obtain advice – no single policy could provide advice on every different type of complaint that could be received and as such the policy gives the officers guidance but also gives them a means to seek assistance should they need it. This action was considered to be complete by audit close.
  - d. Access to the shared account: the access authorisations held by governance did not match the authorisations confirmed by IT. Further, individuals with authorised access were absent from the list provided by IT. Immediate action was taken to remove access to the lawyers whose current duties did not include management of the WB process and for IT to confirm that access was limited to those intended. This action was considered to be complete by audit close.
7. The Assurance Opinion to the Audit is considered to be reasonable. Changes have been made to the operation of the process and a new procedure that means that these Findings should not be repeated.

#### WB Update

8. The number of WB referrals made to the Council were 6 in 2020/21, 9 in 2021/22, 14 in 2022/23 and 3 in 2023/24.
9. As mentioned in the Audit findings, the tracker for April 2021 to March 2023 is incomplete as to its outcomes but there are no indications that any WB referrals remain outstanding. A number of referrals were refused under the WB policy as they appeared to be matters more properly considered under the grievance procedure (where WB applies in any event where the public interest disclosure is made).
10. In the current year, the current position on the referrals are:
- e. WB2023001 - Referral accepted on 01 June 2023 – investigated and upheld in part. Learning for the relevant team and WB has agreed with the outcomes on 24 August 2023.
  - f. WB2023002 - Referral accepted on 28 July 2023 – currently being investigated.
  - g. WB2023003 – referral received and refused 18 Sept 2023 – refused as does not relate to activities or functions of the Council. The referrer has been signposted to the correct agency and Council has offered to make referral.

#### Future Reporting

11. An annual report on the operation of the WP will be brought to the Committee (nearest to July meeting) to give members oversight of the operation of the policy.
12. The operation of the referral and monitoring process of the WP will be centralised in a single member of staff and it will be part of their duties to ensure that the process is as efficient as possible. The Head of Legal and a second governance lawyer will be involved to ensure oversight and that legal advice is available as part of any investigation process.

### **Community impact**

13. 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**

14. There are minimal environmental impacts in the Whistleblowing Policy though of course any environmental concerns can be raised under the policy.

## **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 WP is open to all employees. Many complaints are raised on an anonymous basis. Where a matter is raised and if it relates to an equality issue, then it would be investigated by the relevant department as part of the complaint.

## **Resource implications**

17. There are no resource implications to this revised policy.

## **Legal implications**

18. Legal implications are set out in the body of this report.

## **Risk management**

19. 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

20. None.

## Appendices

Appendix 1 - SWAP Terms of Reference for Whistleblowing Audit

Appendix 2 – SWAP Findings for Whistleblowing Audit

## Background papers

None identified.

## Report Reviewers Used for appraising this report:

**Please note this section must be completed before the report can be published**

Governance	Jen Preece	Date 26/09/2023
Finance	Click or tap here to enter text.	Date Click or tap to enter a date.
Legal	Sean O'Connor	Date 25/09/2023
Communications	Click or tap here to enter text.	Date Click or tap to enter a date.
Equality Duty	Click or tap here to enter text.	Date Click or tap to enter a date.
Procurement	Lee Robertson	Date 29/09/2023
Risk	Kevin Lloyd	Date 25/09/2023

Approved by Click or tap here to enter text. Date Click or tap to enter a date.

**[Note: Please remember to overwrite or delete the guidance highlighted in grey]**

**Please include a glossary of terms, abbreviations and acronyms used in this report.**



**Audit Objective**

To ensure that the Council has appropriate policies and procedures in place to manage whistleblowing incidents and that they are adequately communicated and correctly applied and adhered to.

**Background**

An audit of the Council’s Whistleblowing Policy and application of processes is to be carried out as part of SWAP Internal Audit Services’ 2023/24 internal audit plan.

The proposed review was discussed with the Chair & Deputy Chair of the Audit and Governance Committee, as this is an area that has not been reviewed in recent years. The audit aims to establish whether the policy and the way in which cases are addressed, leads to staff/stakeholders feeling able to make a whistleblowing disclosure without fear of any subsequent negative impact on themselves.

**Risk(s) to be reviewed**

The Council’s Whistleblowing Policy is not visible enough or inadequate, leading to concerns around conduct or potential fraud that employees, members, or members of the public have not being reported, or reported cases not being adequately investigated and addressed.

**Risk Ref**

N/A

**Audit Scope and Audit Approach**

The audit will include a review of the following areas:

- visibility and content of Whistleblowing Policy;
- Whistleblowing response procedures;
- staff training requirements and compliance;
- security of case files;
- corporate reporting requirements.

These terms of engagement set out the scope and coverage of the review, but should not be regarded as an exhaustive programme of work and initiative and discretion will be used. The planned scope can only be completed if information is made available promptly, and necessary staff are available, otherwise the scope of work may require amendment.

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## Key information Sources/Requirements

### Information Required (not exhaustive):

We have requested and received the following documentation:

- the new Whistleblowing Policy (currently awaiting approval);
- system access to whistleblowing cases.

These were requested during the initial audit meeting, held on 9th May 2023.

Other required documentation will include:

- supporting records for selected Whistleblowing cases since 1st April 2021;
- whistleblowing procedures;

## Timings

Milestones	Target Date
Commencement of fieldwork	18 <sup>th</sup> May 2023
Estimated completion of fieldwork	16 <sup>th</sup> June 2023
Close out meeting & Report	19 <sup>th</sup> June 2023

Agreed timescales are subject to all relevant documentation being made available and availability of key managers.

## Reporting

We will communicate findings throughout the audit (including pre-arranged 'stand-ups') and seek agreement to actions for inclusion in a summary report and implementation plan. The final report will be discussed with/issued to the following 'sponsor' officers and to wider stakeholders as required.

Head of Legal Services & Deputy Monitoring Officer	Sean O'Connor	Sean.O'Connor@herefordshire.gov.uk
Senior Lawyer Corporate Services	Deborah Upton	Deborah.Upton@herefordshire.gov.uk
Director of Governance and Law: Corporate Services	Claire Porter	Claire.Porter2@herefordshire.gov.uk

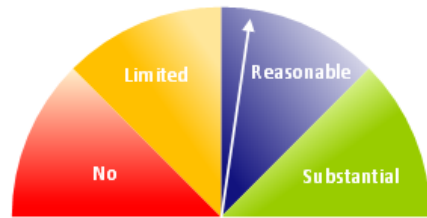
## Audit Team

Assistant Director	Ian Halstead	<a href="mailto:ian.halstead@swapaudit.co.uk">ian.halstead@swapaudit.co.uk</a>
Principal Auditor	Janine Davies	<a href="mailto:janine.davies@swapaudit.co.uk">janine.davies@swapaudit.co.uk</a>
Lead Auditor	Ellen Kible-Goodman	<a href="mailto:ellen.kible-goodman@herefordshire.gov.uk">ellen.kible-goodman@herefordshire.gov.uk</a>

## Audit Objective

To ensure that the Council has appropriate policies and procedures in place to manage whistleblowing incidents and that they are adequately communicated and correctly applied and adhered to.

## Assurance Opinion



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.

## Number of Actions

Priority	Number
Priority 1	0
Priority 2	3
Priority 3	1
<b>Total</b>	<b>4</b>

## Risks Reviewed

1. The Council's Whistleblowing Policy is not visible enough or inadequate, leading to concerns around conduct or potential fraud that employees, members, or members of the public have not being reported, or reported cases not being adequately investigated and addressed.

## Assessment

Low

## Key Findings



Herefordshire Council provide two mandatory training modules which reference the Whistleblowing Policy. This training is not offered annually and there are currently no whistleblowing reminders posted or provided to staff through the year.



Historical data has not been kept up to date in the Corporate Register as required by the Whistleblowing Policy. However, the 2023/24 cases are now being documented.



We raised concerns about the level of guidance provided to investigating officers under the old process/policy, however the new policy that was approved by Audit and Governance on 23<sup>rd</sup> June 2023 provides more detail in this area. We consider this to be sufficient at this time, and hence we are not including a finding within this report. However, we will review the effectiveness of this during our next audit review of whistleblowing.



Records provided by the Information Security Officer showed a discrepancy in the staff access to the whistleblowing shared drive. The Head of Legal Services & Deputy Monitoring Officer took immediate action to resolve this issue.

## Audit Scope

The audit consisted of a review of the following areas:

- Ensuring that the Whistleblowing Policy is in place and up to date;
- Ensuring that staff communications are provided to ensure policy awareness;
- Review of Whistleblowing response procedures;
- Ensuring the staff are trained to manage Whistleblowing cases;
- Ensuring that roles and responsibilities are clearly defined and understood for dealing with cases linked to senior management.
- Cases are stored safely and securely.

## Summary

The revised Whistleblowing Policy was approved by the Audit and Governance Committee on 23<sup>rd</sup> June 2023. Changes made to the policy should promote a positive understanding of whistleblowing and provide assurances to potential whistleblowers that a disclosure would not have a subsequent negative impact on them.

Appendix 1

Findings & Action Plan

Finding 1.	Action												
<p><b><u>Whistleblowing Policy Awareness</u></b></p> <p>The Council offers two mandatory training modules to all staff/officers/contractors and Hoople staff for completion initially through induction and thereafter as required by the Council.</p> <p>Mandatory training references whistleblowing and shares a link to the policy, however, this training is offered on a two-yearly or three-yearly cycle and there is currently no whistleblowing reminders posted or provided to staff through the year.</p> <p>As this is not circulated annually, to increase awareness and ensure there is a positive culture towards whistleblowing, all directors and assistant directors should communicate a reminder to all staff that the whistleblowing policy is in place. Having the policy mentioned in the CEO briefings a couple times a year would also promote awareness.</p>	<p>As the Whistleblowing Policy is currently used, there does not appear to be any evidence of a lack of awareness. However, we will ask Directors to remind their staff on an annual basis that the policy exists. When the policy is updated or process changes, we will notify staff via the Chief Executive weekly news bulletin.</p> <table border="1" data-bbox="1137 651 2119 799"> <tr> <td><b>Priority</b></td> <td><b>3</b></td> <td><b>SWAP Reference</b></td> <td>AP#2380</td> </tr> <tr> <td><b>Responsible Officer</b></td> <td colspan="3">Monitoring Officer</td> </tr> <tr> <td><b>Timescale</b></td> <td colspan="3">Complete</td> </tr> </table>	<b>Priority</b>	<b>3</b>	<b>SWAP Reference</b>	AP#2380	<b>Responsible Officer</b>	Monitoring Officer			<b>Timescale</b>	Complete		
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<b>Responsible Officer</b>	Monitoring Officer												
<b>Timescale</b>	Complete												
<p><b><u>Finding 2.</u></b></p> <p><b><u>Corporate Register/Case Log</u></b></p> <p>Record keeping is not up to date and cases are not being recorded on the corporate register/case log spreadsheet. All concerns raised should be documented, this includes cases not considered as whistleblowing concerns or not proceeding to investigation stage. Records should also include details to identify lessons learned or improvements to be made.</p> <p>Completing a corporate register/case log will provide ease of reference for whistleblowing officers, enable the team to track trends, provide lessons learned for future investigations and accuracy in reporting to the Audit and Governance Committee.</p>	<p>The Council does have a tracker which keeps a record of all cases and outcomes, including those which do not proceed for other reasons e.g. employment matter. This is now kept up to date.</p> <table border="1" data-bbox="1137 1145 2119 1289"> <tr> <td><b>Priority</b></td> <td><b>2</b></td> <td><b>SWAP Reference</b></td> <td>AP#2383</td> </tr> <tr> <td><b>Responsible Officer</b></td> <td colspan="3">Monitoring Officer</td> </tr> <tr> <td><b>Timescale</b></td> <td colspan="3">Complete</td> </tr> </table>	<b>Priority</b>	<b>2</b>	<b>SWAP Reference</b>	AP#2383	<b>Responsible Officer</b>	Monitoring Officer			<b>Timescale</b>	Complete		
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<b>Responsible Officer</b>	Monitoring Officer												
<b>Timescale</b>	Complete												

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<p><b>Finding 3.</b></p> <p><b><u>Response Procedures</u></b></p> <p>There are no response procedures currently in place. Due to this, we were unable to ascertain whether sufficient support/advice was provided to investigators on cases reviewed, or whether correct steps were taken to investigate concerns.</p> <p>A comprehensive process procedure, would offer a step-by-step guide to support an outcome and ensure consistency of approach i.e. how to proceed with the case, ensuring support is provided, reporting is done, timeframes are kept, all documents are stored/recorded and final outcomes are provided etc.</p> <p>Due to the Corporate Register (case spreadsheet) not being consistently updated and all cases recorded, as well as missing documentation, the Whistleblowing team was unable to provide clear feedback on cases queried.</p>	<p><b>Action</b></p> <p>The audit was based on the previous Whistleblowing Policy. A new policy was agreed by the A&amp;G Committee at its meeting in June 2023, and this contains a procedure for those receiving a concern. It also advises that support can be obtained from the Monitoring Officer for help with an investigation. As there are approximately six cases per year, and these can be on varied topics, it is not considered appropriate to write a comprehensive process procedure. All documentation is stored and recorded by the Monitoring Officer at the resolution of a case.</p>												
	<table border="1"> <tr> <td><b>Priority</b></td> <td style="background-color: #FFD700;">2</td> <td><b>SWAP Reference</b></td> <td>AP#2382</td> </tr> <tr> <td><b>Responsible Officer</b></td> <td colspan="3">Monitoring Officer</td> </tr> <tr> <td><b>Timescale</b></td> <td colspan="3">Complete</td> </tr> </table>	<b>Priority</b>	2	<b>SWAP Reference</b>	AP#2382	<b>Responsible Officer</b>	Monitoring Officer			<b>Timescale</b>	Complete		
<b>Priority</b>	2	<b>SWAP Reference</b>	AP#2382										
<b>Responsible Officer</b>	Monitoring Officer												
<b>Timescale</b>	Complete												

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<p><b>Finding 4.</b></p> <p><b><u>Whistleblowing Shared Drive Access</u></b></p> <p>The Information Security Officer confirmed that the user account list provided by Head of Legal Services &amp; Deputy Monitoring Officer did not match the user account list held by IT. Due to the nature of sensitive documentation held on this shared drive, immediate action is required to ensure no unauthorised staff have access to this data.</p>	<p><b>Action</b></p> <p>The Head of Legal Services &amp; Deputy Monitoring Officer has provided an update to the Information Security Officer with details of staff who have approved access to the whistleblowing shared drive. This has been updated by the Information Security Officer and all other access has been removed.</p>												
	<table border="1"> <tr> <td><b>Priority</b></td> <td style="background-color: #FFD700;">2</td> <td><b>SWAP Reference</b></td> <td>AP#2342</td> </tr> <tr> <td><b>Responsible Officer</b></td> <td colspan="3">Head of Legal Services &amp; Deputy Monitoring Officer</td> </tr> <tr> <td><b>Timescale</b></td> <td colspan="3">Complete</td> </tr> </table>	<b>Priority</b>	2	<b>SWAP Reference</b>	AP#2342	<b>Responsible Officer</b>	Head of Legal Services & Deputy Monitoring Officer			<b>Timescale</b>	Complete		
<b>Priority</b>	2	<b>SWAP Reference</b>	AP#2342										
<b>Responsible Officer</b>	Head of Legal Services & Deputy Monitoring Officer												
<b>Timescale</b>	Complete												





# Title of report: In Year Changes to Fees and Charges

**Meeting: Audit and Governance Committee**

**Meeting date: Tuesday 24 October 2023**

**Report by: Head of Legal Services and Deputy Monitoring Officer**

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

(All Wards);

## **Purpose**

This report seeks to a change to Part 4 Section 7 of the Financial Procedure Rules to allow officers to make in year changes to fees and charges and to a use capital programme monies to be moved from a capital scheme to fund increased spend or variations in other existing capital schemes.

## **Recommendation(s)**

That:

- a) **The changes in paragraph 9 are approved to enable in-year changes in fees and charges to be made by directors in consultation with Chief Finance Officer and relevant members; and**
- b) **the Monitoring Officer is authorised to amend the Financial Procedure Rules (Part 4 Section 7) and Financial Guidance (Part 4 Section 7b) of the Constitution to reflect recommendation a.**

## **Alternative options**

1. Do not make any change – the current uncertainty will be resolved as officers will be clear that they are not authorised to make changes. The decision making will be clarified and will revert either to full Council or Cabinet, or their subcommittees (unless express and specific decisions have or will be made to delegate from those bodies). Where this option is preferred then it is recommended that the financial rules should be amended so the principles of charging (a. to l.) are complied with.

2. Allow the officers to make changes but with alternative preconditions. Although this is possible, it is considered that consultation with the Cabinet Member, Group Leaders and Chief Finance Officer are sufficient controls. The decision would still be subject to call-in should the pre-conditions not be met.

## **Key considerations**

3. The Council budget setting process commences with officers in October in the financial year. This leads to a series of information gathering and decisions in services, directorates and Corporate Leadership Team. At the same time, the executive part of the Council determines its priorities and initiatives for the following year.
4. This all cumulates in a decision by Cabinet to recommend a budget to Full Council for decision ordinarily in February. This recommendation is made up of the income received and spend required to inform the budget. This is then used to determine the council tax precept. Part of the incomes received includes Fees & Charges levied by the Council for certain tasks.
5. The Fees & Charges include those where the Council doesn't have a discretion (such as some licensing and planning) but there are many charges which are discretionary. These range from the cost of car parking through to the cost levied to provide some adult social care services.
6. Although a comprehensive process, the budget takes many months to perfect and can due to external factors be out of date almost from the time it is passed by Full Council. As income from grants and council tax will not change, increases in costs often have to be funded by use of reserves or by estimating likely costs.
7. Where external factors impact (such as higher than expected inflation) the shortfall in income to the Council becomes even more acute. Similarly, where income is collected through third parties, then it is not always possible to align their processes with the Council budget setting.
8. Further, there is currently no clear mechanism in the Constitution whether additional charges can be made for new services or mechanism to reduce charges (for example: to operationally promote a particular service). These currently need a full executive decision and possibly a Council decision. It is unclear whether this would be an operational officer decision or change to the Budget.
9. The recommendation to the Committee is that officers are provided with a clear delegation to set and change the fees and charges. The change recommended is that the entirety of section 69 titled 'Review of Service Charges' of the "Finance Procedure Rules – Guidance Notes" below is deleted and replaced.

Currently section 69 states – '*As per Fees and Charges Policy*'. Officers are unaware of such a policy. Older versions of the constitution also include a link to a 2011 and 2012 Cabinet decision but it is not clear if that decision applies onto to 2014 only. As such the proposal is to include the principles as set out in the 2011 decision.

It is proposed that section 69 is replaced by:

### ***Fees and Charges***

*These are set as part of the annual budget setting process by Full Council.*

*Fees and Charges may be changed (including increasing, reducing, stopping or introducing a new charge) in year by decision of the relevant Director.*

*Where a change is proposed by the Director (other than an inflationary increase) then the Chief Finance Officer, relevant Lead Members and Group Leaders must be consulted. The same group will then also be notified of the decision.*

*In all instances the changes should align with the following principles:*

- a. The council should aim to charge for all services where it is appropriate to do so, unless there are conflicting policies or legal reasons not to do so.*
- b. The council should (subject to market conditions) aim to maximise income from fees and charges by ensuring that charges reflect the full cost of provision, unless there are contrary policies, legal or contractual reasons.*
- c. Decisions to subsidise services, or to not make a charge for a service should be clearly linked to council objectives, and the potential income that is not earned must be a consideration in the decision.*
- d. Where the council continues to subsidise the cost of services provided to customers, the level of subsidy should be clearly understood and publicised.*
- e. Comparisons and benchmarking with relevant sectors in terms of charges made, cost of service delivery, levels of subsidy and market variations should be used to inform fees and charging proposals.*
- f. Charges must be linked to both service and strategic objectives and must be clearly understood.*
- g. The direct implications of charging for residents, and the indirect implications for public, private and voluntary sector partners should be clearly understood.*
- h. Any concessionary scheme should be based on ability to pay and be applied in a consistent and transparent approach across all council services.*
- i. The council should, where appropriate, seek to influence the charging policies of partner organisations engaged in delivering council services align with council policies through robust commissioning arrangements.*
- j. Inflationary uplifts will be applied unless a decision is made not to do so.*
- k. Cost effective and efficient income collection channels should be in place. This includes all fees and charges being collected before a service is provided.*
- l. Services must be as efficient as possible when seeking full cost recovery so that the cost of collection is minimised.*

10. The above principles for charging were adopted by Cabinet decision [on 30 June 2011](#). They have not been included within the Constitution. The delegation above is different as the 2011 decision appears to apply only to that year and a specific fee increase. The delegation above requires additional consultation with the lead member, group leaders and CFO. Finally, there is a notification process to the Group Leaders (either via the Officer Decision process or email should the level of change fall below the notification threshold (£50k) for an Officer Decision).

## **Community impact**

11. The flexibilities in this report will enable the Council to respond more quickly to external challenges that impact our finances. The Fees and Charges can be tailored to make a specific need or demand.

## **Environmental Impact**

12. There are no direct impacts of these changes to the Financial Procedure Rules but the changes could help promote or deliver schemes in a more efficient manner.

## **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;
  - 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. Our providers will be made aware of their contractual requirements in regards to equality legislation.

## **Resource implications**

15. There are no direct resource implications but there will be an improvement in efficiency for decision making allowing officers to respond quicker and more effectively to financial changes.

## **Legal implications**

16. The Audit & Governance Committee has the delegated authority to update the Financial Procedure Rules (Part 3 Section 1 Table 3.1.1).
17. The Budget and certain policies must be approved by Full Council on recommendation from Cabinet but each Council can decide (within its Constitution) how services and its associated spend is delivered.
18. As Budgets are approved by Full Council, it is unclear what discretion officers have in relation to fees and charges and the recommendation give clarity what can be done and what factors should be considered when setting such.
19. If the recommendation is rejected, then clarity is also provided in that any changes to fees and charges must be approved by members as either an executive or full council decision (depending on the nature of the Fees and Charge) or to other committees/members/officers as specifically delegated.

## **Risk management**

20. There are no specific risks identified by the changes to the Financial Procedure Rules. The changes require senior officer approvals as possible mitigations.

## **Consultees**

21. Group Leaders were consulted on 07 September 2023. A Group Leader's view was that there was some sense in making it easier for changes to be made in year but considered that the proposal removed Councillors (other than Lead Members) from the decision process. A further point was raised about whether consideration was made to place controls or limitations on the charges that could be raised by officers.
22. As such the recommendation has been amended so that Group Leaders are consulted as part of the changes. This is considered to be analogous to the rights of Group Leaders to attend Cabinet and speak under 4.4.11(c) of the Constitution. If a decision is made to change, then Group Leaders will be notified.

## **Appendices**

- None

## **Background papers**

- None identified





# Title of report: Work programme

**Meeting: Audit and Governance Committee**

**Meeting date: 24 October 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 noted.**

## 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
<b>3.5.10</b>	<b>Internal Audit</b>	<b>Internal Audit</b>								
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 Report and 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.	Update on Audit Recommendations Report		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)								
<b>3.5.11</b>	<b>External Audit</b>	<b>External Audit</b>								
a	Review and agree the External Auditors annual plan, including the annual audit fee and annual letter and receive regular update reports on progress.	External Audit Annual Plan Annual Audit Fee Letter External Audit Progress Update External Audit Findings Report External Auditor's Annual Report Update on Audit Recommendations Report	External Auditor's Annual Report  External Auditor's Draft Plan (including indicative fee)		External Audit Findings Report	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
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.								
<b>3.5.12</b>	<b>Governance</b>									
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 Proposed Changes to the Constitution				Report on the potential appointment of independent committee members to the Audit and Governance Committee	In Year Changes to Fees and Charges		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 <del>Approach to Strategic Risk Management Update</del>  (Ad hoc) Report on Risk Management Approach to Ash Dieback (Chalara)	Work Programme	Work Programme	Work Programme Risk Registers  Approach to Strategic Risk Management Update	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				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.	Annual Review of Information Access / Governance					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								
<b>3.5.13 Waste Contract</b>										
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			
<b>3.5.14 Code of Conduct: To promote and maintain high standards of conduct by members and co-opted members of the Council</b>										
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.							1) Code of Conduct for Councillors - 6 monthly update 2) Amendments to the code of conduct reporting process		
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								
<b>3.5.15 Accounts</b>										
	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				Final Statement of Accounts	Statement of Accounts Preparation report		