

Shropshire Council
Legal and Democratic Services
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Date: Monday, 15 June 2015
My Ref:
Your Ref:

**Committee:
Audit Committee**

Date: Thursday, 25 June 2015
Time: 9.30 am
Venue: Ludlow Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire,
SY2 6ND

You are requested to attend the above meeting.
The Agenda is attached

Claire Porter
Corporate Head of Legal and Democratic Services (Monitoring Officer)

Members of Audit Committee

Brian Williams (Chairman)
Michael Wood (Vice Chairman)
John Cadwallader

Chris Mellings
Mansel Williams

Your Committee Officer is:

Michelle Dulson Committee Officer
Tel: 01743 252727
Email: michelle.dulson@shropshire.gov.uk

AGENDA

1 Apologies for Absence / Notification of Substitutes

2 Disclosable Pecuniary Interests

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

3 Minutes of the previous meetings held on 23 February, 14 May and 5 June 2015 (Pages 1 - 10)

To confirm the Minutes of the meetings held on 23 February, 14 May and 5 June 2015 attached marked 3a, 3b and 3c respectively.

Contact Michelle Dulson (01743) 252727

4 Public Questions

To receive any questions from the public, notice of which has been given in accordance with Procedure Rule 14.

5 Council tax and NNDR performance report monitoring

Report of the Revenues and Benefits Service Manager is to follow marked 5.

Contact: Phil Weir (01743) 256113

6 2014/2015 Review of the Whistleblowing - 'Speaking up about Wrongdoing' (Pages 11 - 28)

Report of the HR Manager is attached marked 6.

Contact: Sam Williams (01743) 252817

7 2014/15 Settlement Agreements (Pages 29 - 44)

Report of the HR Business Partner is attached marked 7.

Contact: Dawn Coss (01743) 281375

- 8 Revenue outturn report 2014/15** (Pages 45 - 64)
Report of the Section 151 Officer is attached marked 8.
Contact: James Walton (01743) 255011
- 9 Capital outturn report 2014/15** (Pages 65 - 90)
Report of the Section 151 Officer is attached marked 9.
Contact: James Walton (01743) 255011
- 10 Annual Statement of Accounts 2014/15** (Pages 91 - 270)
Report of the Section 151 Officer is attached marked 10.
Contact: James Walton (01743) 255011
- 11 Internal Audit Annual report 2014/15** (Pages 271 - 290)
Report of the Audit Service Manager is attached marked 11.
Contact: Ceri Pilawski (01743) 252027
- 12 Review of Shropshire Council's Code of Corporate Governance 2014/15**
(Pages 291 - 328)
Report of the Engagement Auditor is attached marked 12.
Contact: Pete Chadderton (01743) 252773
- 13 Annual Governance Statement and a review of the effectiveness of the Council's system of internal control 2014/15** (Pages 329 - 352)
Report of the Section 151 Officer is attached marked 13.
Contact: James Walton (01743) 255011

14 Annual review of the effectiveness of the system of Internal Audit and Quality Assurance and Improvement Programme (QAIP) 2014/15 (Pages 353 - 360)

Report of the Section 151 Officer is attached marked 14.

Contact: James Walton (01743) 255011

15 Annual Assurance report of Audit Committee to Council 2014/15 (Pages 361 - 376)

Report of the Section 151 Officer is attached marked 15.

Contact: James Walton (01743) 255011

16 External Audit: Pension fund audit plan 2014/15 (Pages 377 - 392)

Report of the Engagement Lead is attached marked 16.

Contact: Jon Roberts (0121) 232 5383

17 External Audit: Audit fee letter 2015/16 (Pages 393 - 396)

Report of the Engagement Lead is attached marked 17.

Contact: Jon Roberts (0121) 232 5383

18 External Audit: Audit Committee update (Pages 397 - 412)

Report of the Engagement Lead is attached marked 18.

Contact: Jon Roberts (0121) 232 5383

19 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 17 September 2015 at 9.30am.

20 Exclusion of Press and Public

To RESOLVE that in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following items.

21 Exempt Minutes

To confirm the Exempt Minutes of the meeting held on 5 June 2015 (to follow).

Contact Michelle Dulson (01743) 252727

22 IT Revised Implementation Plan for audit recommendations

The report of the Head of Programme Management is to follow, marked 22.

Contact: Neil Langford (01743) 251799

**23 Fraud and Special Investigation and RIPA Update February 2015
(Exempted by Categories 2, 3 and 7) (Pages 413 - 416)**

The report of the Engagement Auditor is attached, marked 23.

Contact: Katie Williams (01743) 252087

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Committee and Date

Audit Committee

25 June 2015

**MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 23 FEBRUARY 2015
9.30 AM - 12.38 PM**

Responsible Officer: Liz Sidaway
Email: liz.sidaway@shropshire.gov.uk Tel: 01743 252885

Present

Councillor Brian Williams (Chairman)
Councillors Michael Wood (Vice Chairman), John Cadwallader and Mansel Williams

66 Apologies for Absence / Notification of Substitutes

66.1 Apologies for absence were received from Councillor Chris Mellings.

67 Disclosable Pecuniary Interests

67.1 The Chairman reminded members that they must not participate in the discussion or vote on any matter which they had a disclosable pecuniary interest and that they should leave the room prior to the commencement of the debate.

68 Minutes of the previous meeting held on the 27 November 2014 and the 10 February 2015

68.1 **RESOLVED:**
That the minutes of the meeting held on the 10 February 2015 and the 27 November 2014 be approved and signed by the Chairman as a correct record.

69 Public Questions

69.1 There were no public questions.

70 Reviewing the Audit Plan

70.1 The Audit Services Manager gave a presentation entitled 'Reviewing the Audit Plan' which formed part of the agreed training for members of the Audit Committee.

70.2 **RESOLVED:**
That the presentation be noted.

71 Benefit Fraud Investigations - Performance Monitoring Report

71.1 The Revenues and Benefits Service Manager presented his report - copy attached to the signed minutes - which set out details of the investigative work undertaken

into fraudulent claims for Housing Benefit, Council Tax Benefit and other Welfare Benefits jointly with the Department for Work and Pensions for the financial year 2014/15 to the 10 February 2015.

71.2 RESOLVED:

That the position as set out in the report of the Revenues and Benefits Service Manager - Investigations on the team performance be noted and accepted.

72 Treasury Strategy 2015/16

72.1 The Committee considered the report of the Head of Finance, Governance and Assurance – copy attached to the signed minutes – on the proposed Treasury Strategy for 2015/16 and the recommended Prudential Indicators for 2015/16 to 2017/18.

72.2 RESOLVED:

That the proposed Treasury Strategy for 2015/16 and recommended Prudential Indicators as set out in the report by the Head of Finance, Governance and Assurance (Section 151 Officer) be noted and accepted.

73 Internal Audit Report of the Review of Risk Management Audit 2014/15

73.1 The Committee considered the report of the Engagement Auditor - copy attached to the signed minutes - which summarised the detailed findings identified in the Internal Audit review of risk management of which the overall control environment had been assessed as Reasonable.

73.2 Some concern regarding the monitoring of risks was identified by members of the Committee and in response, the Head of Finance, Governance and Assurance (Section 151 Officer) assured members that strategic risks were monitored and reviewed by Cabinet during their informal meetings and operational risks monitored and assessed by the Council's Senior Management Team.

73.3 RESOLVED:

That the Internal Audit Risk Management 2015/16 be endorsed and accepted.

74 Review of the Audit Committee's Annual Work Plan and Future Learning and Development Requirements 2015/16

74.1 The Committee considered the report of the Audit Services Manager - copy attached to the signed minutes - which provided members with a proposed work plan for the year ahead to ensure they received appropriate learning and development to deliver their responsibilities effectively to fulfil their roles as members of the Audit Committee.

74.2 RESOLVED:

- (a) That the Work Plan as set out in Appendix A for 2015/16 be approved and be regularly monitored during the year.
- (b) That the Audit Services Manager, in consultation with the Chairman of the Audit Committee, be delegated to finalise the Learning and Development Plan for 2015/16

75 External Audit: Audit Committee Update for Shropshire Council

75.1 The Engagement Lead (Grant Thornton) presented the Audit Committee Update for Shropshire Council - copy attached to the signed minutes - which highlighted the progress made on work undertaken during the year and summarised the emerging national issues and developments of relevance to the Council. He indicated that no major issues had been identified.

75.2 RESOLVED:

That the contents of the Audit Committee Update Report for Shropshire Council be noted and accepted.

76 External Audit: Certification Summary Reports 2013/14 including Housing Benefit

76.1 Consideration was given to a report from Grant Thornton (External Auditor) - copy attached to the signed minutes - detailing the Certification Work Report 2013/14 relating to grants, subsidy and the return of financial information. It was noted that Grant Thornton had certified two claims for the financial year 2013/14 which related to £72 million. It was reported that the fees for the certification of housing benefit subsidy claims had been reduced by 12% to reflect the removal of council tax benefit.

76.2 RESOLVED:

That the Certification Report 2013/14 be noted and endorsed by the Committee.

77 External Audit: Plan 2014/15

77.1 The Committee received the Audit Plan 2014/15 for Shropshire Council - copy attached to the signed minutes - setting out the work that Grant Thornton would be undertaking to discharge their responsibilities in relation to the Council's financial statements to provide a conclusion on the Council's arrangements for achieving Value for Money (VFM) and to consider the Council's Annual Governance statement.

77.2 RESOLVED:

That the Audit Plan for Shropshire Council be noted and accepted.

78 External Audit: Informing the Audit Risk Assessment for Shropshire Council

78.1 Consideration was given to the report of the External Auditors - copy attached to the signed minutes - which set out the contribution towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'.

78.2 RESOLVED:

That the contents of the External Audit report 'Informing the Audit Risk Assessment for Shropshire Council' be noted and accepted.

79 Draft Internal Audit Risk Based Plan 2015/16

79.1 Consideration was given to the report of the Audit Service Manager - copy attached to the signed minutes - on the draft Internal Audit Plan for 2015/16. It was noted that the plan provided audit coverage across the Council's services and also delivered internal audit services for a range of external clients.

79.2 The Audit Service Manager summarised the Audit Plan and confirmed that the plan could be adjusted during the course of the year as workflow dictated and indicated that this would be undertaken in consultation with the Section 151 Officer if necessary.

79.3 The Committee expressed significant concern in relation to the reduction in resources and acknowledged the significant challenges faced by the Internal Audit Team as a result. The Head of Finance, Governance and Assurance (Section 151 Officer) undertook to bring this issue to the attention of the Senior Management Team and Cabinet to ensure they were fully apprised of the concerns of the Audit Committee.

79.4 **RESOLVED:**

That the proposed Internal Audit Plan 2015/16 be accepted and adopted with concern expressed that the reduced resources were close to failing to meet the risk profile of the Council.

80 Internal Audit Plan 2014/15 - Ten Month Plan Report

80.1 The Audit Services Manager presented her report - copy attached to the signed minutes - which provided members with an update of the work undertaken by Internal Audit since the last report considered in November 2014 and summarised the progress achieved against the 2014/15 Internal Audit Plan.

80.2 **RESOLVED:**

- a. That the progress of the plan to date against the 2014/15 plan as set out in the report be accepted.
- b. That the adjustments required to the 2014/15 plan to take account of the changing priorities as set out in Appendix B be endorsed.

81 Date and Time of Next Meeting

81.1 **RESOLVED:**

The next meeting of the Audit Committee would be held on Thursday, 25 June 2015 at 9.30 am.

82 Exclusion of Press and Public

82.1 **RESOLVED:**

That in accordance with the provisions of Schedule 12A of the Local Government Act 1972 and paragraph 10.2 of the Council's Access to Information Procedure Rules, the public and press be excluded during consideration of the following items as defined by the categories specified against them.

83 Exempt Minutes of the meeting held on the 10 February 2015

83.1 RESOLVED:

That the exempt minutes of the meeting held on the 10 February 2015 be approved and signed by the Chairman as a correct record.

84 Fraud, Special Investigation and RIPA Update February 2015

84.1 Consideration was given to the exempt report of the Engagement Officer which provided an update on the current fraud, special investigations undertaken by the Internal Audit Team together with an update on the RIPA activity since the last meeting.

84.2 RESOLVED:

That the contents of the exempt report be noted.

Signed (Chairman)

Date:

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<p><u>Committee and Date</u></p> <p>Audit Committee</p> <p>25 June 2015</p>
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MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 14 MAY 2015

Responsible Officer: Michelle Dulson

Email: michelle.dulson@shropshire.gov.uk Tel: 01743 252727

Present

Councillors Brian Williams (Chairman), Michael Wood (Vice Chairman), John Cadwallader and Chris Mellings

1 Election of Chairman

RESOLVED:

That Mr B Williams be appointed Chairman of the Audit Committee for the ensuing municipal year.

2 Apologies for Absence

Apologies for absence were received from Mr J M Williams.

3 Appointment of Vice-Chairman

RESOLVED:

That Mr M Wood be appointed Vice-Chairman of the Audit Committee for the ensuing municipal year.

4 Date and Time of Next Meeting

It was noted that a Special Meeting of the Audit Committee was due to take place at 9.30am on Friday 5 June 2015. The next scheduled meeting was due to take place at 9.30am on Thursday 25 June 2015.

Signed (Chairman)

Date:

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<p><u>Committee and Date</u></p> <p>Audit Committee</p> <p>25 June 2015</p>
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MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 5 JUNE 2015

9.30 - 10.20 AM

Responsible Officer: Michelle Dulson

Email: michelle.dulson@shropshire.gov.uk Tel: 01743 252727

Present

Councillor Brian Williams (Chairman)

Councillors Michael Wood (Vice Chairman), John Cadwallader, Chris Mellings and Pamela Moseley (substitute for Mansel Williams)

1 Apologies for Absence and Notification of Substitutions

1.1 An apology for absence was received from Councillor Mansel Williams.

1.2 Councillor Pamela Moseley substituted for Councillor Mansell Williams.

2 Disclosable Pecuniary Interests

2.1 The Chairman reminded Members that they must not participate in the discussion or vote on any matter in which they had a disclosable pecuniary interest and that they should leave the room prior to the commencement of the debate.

3 Public Questions

3.1 No public questions had been received.

4 Exclusion of Press and Public

4.1 RESOLVED:

That in accordance with the provisions of Schedule 12A of the Local Government Act 1972 and paragraph 10.2 of the Council's Access to Information Procedure Rules, the public and press be excluded during consideration of the following items as defined by the categories specified against them.

5 IT Disaster Recovery and Business Continuity

5.1 The Committee received the Exempt Report of the Head of Programme Management (copy attached to the Exempt signed Minutes) which provided members with details of progress made on the recommendations outlined in previous Internal Audit reports. The Head of Programme Management introduced his report and answered a number of queries from Members of the Committee.

RESOLVED that the recommendations be approved.

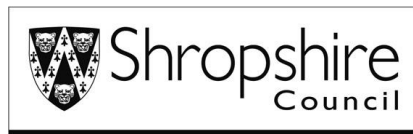
6 Date and Time of Next Meeting

6.1 RESOLVED:

The next meeting of the Audit Committee would take place at 9.30am on Thursday 25 June 2015.

Signed (Chairman)

Date:



<u>Committee and Date</u>	<u>Item</u>
Audit Committee 25 th June 2015	

2014/2015 Review of the Whistleblowing - ‘Speaking Up About Wrongdoing’

Responsible Officer Sam Williams, HR Manager
e-mail: Sam.williams@shropshire.gov.uk Tel: 01743 252817

1. Summary

The Whistleblowing process provides arrangements to enable employees, elected members, contractors and others to raise concerns about fraud, corruption, adult/child protection or harassment and bullying allegations.

This report provides an update to the Shropshire Council Audit Committee on the number of cases raised regarding Council employees over the last year (excluding school based employees).

2. Recommendations

The Audit Committee is asked to consider and comment on the contents of the report.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The Council has in place an effective Counter Fraud, Bribery and Anti-Corruption Strategy. The Council proactively encourages the detection of fraud and irregularities and the appropriate management of them. The Whistleblowing policies contribute to our zero tolerance of fraud, bribery and corruption.

3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

4.1 The management and investigation of issues raised in response to this policy are met from approved budgets.

5. Background

5.1 This is an annual report to Audit Committee on whistleblowing arrangements.

5.2 The Whistleblowing Policy is available to all staff via the Intranet pages and is also available to them, along with members, contractors, partners and the public, via the web-site; allowing it to be accessed from any computer. This is particularly important as it allows staff to access the policy outside of a work environment, where they may be reluctant to be seen accessing the Whistleblowing policy. Recent changes have been made to both the staff and public Whistleblowing policies in respect of the contact information provided. The Policies are attached as **appendices 1 and 2**.

Whistleblowing’ is when a worker reports suspected wrongdoing at work. Officially this is called ‘making a disclosure in the public interest’.

A worker can report things that aren’t right, are illegal or if anyone at work is neglecting their duties, including:

- someone’s health and safety is in danger
- damage to the environment
- a criminal offence
- the company isn’t obeying the law (like not having the right insurance)
- covering up wrongdoing

The way a worker can ‘blow the whistle’ on wrongdoing depends on whether they feel they can tell their employer.

1. The worker should check their employment contract or ask human resources or personnel if their company has a whistleblowing procedure.
2. If they feel they can, they should contact their employer about the issue they want to report.
3. If they can’t tell their employer, they should contact a prescribed person or body.

A worker can only tell the prescribed person or body if they think their employer:

- will cover it up
- would treat them unfairly if they complained
- hasn’t sorted it out and they’ve already told them

Dismissals and whistleblowing

A worker can’t be dismissed because of whistleblowing. If they are, they can claim unfair dismissal - they’ll be protected by law as long as certain criteria are met.

Types of whistleblowing eligible for protection

These are called ‘qualifying disclosures’. They include when someone reports:

- that someone’s health and safety is in danger
- damage to the environment
- a criminal offence
- that the company isn’t obeying the law (like not having the right insurance)
- that someone’s covering up wrongdoing

Who is protected

The following people are protected:

- employees
- agency workers
- people that are training with an employer, but not employed
- self-employed workers, if supervised or working off-site

You’re also protected if you work in a school or sixth-form college, whether you’re an employee or an agency worker.

NHS workers who work under certain contractual arrangements, eg certain GPs and dentists, are also protected.

A worker will be eligible for protection if:

- they honestly think what they’re reporting is true
- they think they’re telling the right person
- they believe that their disclosure is in the public interest

Who isn’t protected

Workers aren’t protected from dismissal if:

- they break the law when they report something, eg they signed the Official Secrets Act
- they found out about the wrongdoing when someone wanted legal advice (‘legal professional privilege’), eg if they’re a solicitor

Workers who aren’t employees can’t claim unfair dismissal because of whistleblowing, but they are protected and can claim ‘detrimental treatment’.

Tribunals

Workers dismissed for whistleblowing can go to an employment tribunal or an industrial tribunal in Northern Ireland.

If the tribunal decides the employee has been unfairly dismissed, it will order that they are:

- reinstated (get their job back)
- paid compensation

A tribunal judge can reduce any compensation awarded by 25% if they find the person has acted dishonestly.

A whistleblower who is bullied at work will also be able to bring a claim to the employment tribunal against their employer or colleagues.

Whistleblowing abroad

Workers are protected from unfair treatment even if they blow the whistle on something that happened abroad. This includes when a different country’s law has been or will be broken.

- 5.3 In 2014/15, there were two cases relating to employees reported under the whistleblowing arrangements for Shropshire Council.

2014/15 Whistleblowing Reports

Route in	Allegation	Procedure Used	Outcome
Written	Data Protection breached	Disciplinary	Employees dismissed
Verbal	Theft	Audit Investigation	No Case To Answer

6. Conclusion

- 6.1 The ‘Speaking up about Wrongdoing’ process forms a key element of the Council’s Corporate Governance arrangements and is continuing to be a route employees use to raise concerns, as well as a route which is also open to elected members, contractors, partners and others.

List of background papers (This MUST be completed for all reports but does not include items containing exempt or confidential information) – None

Cabinet Member (Portfolio Holder) Keith Barrow (Leader of the Council) and (Chairman of Audit Committee)

Local Member- N/A

Appendices-

Appendix 1 - Whistleblowing: ‘Speaking up about Wrongdoing, arrangements for Staff’

Appendix 2 - Whistleblowing: ‘Speaking up about Wrongdoing, arrangements for the Public’

Shropshire Council

Staff Whistleblowing: ‘Speaking up about wrongdoing’

How do I raise a concern?

Ring the Whistleblowing Hotline (**01743 252627**

Or

Write to the Audit Service Manager, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND.

Or

Contact a senior officer directly, specific contact details for officers can be found on our web site <http://www.shropshire.gov.uk> or by telephoning Customer Services on 0345 678 9000

What information should I provide?

- Background and history of the concern.
- Names, dates and places where possible, and
- The reason why you are particularly concerned about the situation.

You are not expected to prove the truth of your raised concern. You will need to demonstrate to the person contacted that there are sufficient grounds for your concern.

The earlier you express the concern the easier it will be to take appropriate action.

Shropshire Council

Whistleblowing: ‘Speaking up about wrongdoing, arrangements for staff’

Introduction

1. Shropshire Council is committed to the highest possible standards of openness, honesty, integrity and accountability. Part of meeting that commitment is to encourage staff and others who have serious concerns about its activities to speak up. This may need to be on a confidential basis and the Council wishes to emphasise that if someone does “speak up” they can do so without fear of reprisals. This process is termed “blowing the whistle”. The phrase is used throughout this statement, and should be viewed as a positive action of speaking up.
2. Staff, elected members, contractors and their staff may be the first to see that something is wrong within the Council. Such wrongdoings may relate to:
 - fraud and corruption;
 - discrimination;
 - abuse of children;
 - abuse of vulnerable adults;
 - damage to the environment.
3. Staff may feel unable to express their concerns, because they believe this to be disloyal or they are afraid of being victimised as a result of speaking up. Staff may feel that it would be easier to ignore their concerns, rather than report what may be just a suspicion. This policy is designed to overcome these reservations or fears.
4. It is the duty of staff to speak up when they have serious concerns about the council’s activities. It is the duty of the Council to act on those concerns and protect and support staff when they do. A failure to report a serious concern could be construed as collusion. Difficult as it may be to speak up, staff should be aware of their special position and of their duty to make their concerns known.
5. This policy statement makes clear what staff should do and what will happen as a result. The policy has been discussed with all the relevant trade unions and professional organisations and has their support.

Scope and objectives

Scope

6. This policy is provided for use by staff of the council. Schools and the public, including elected members, have their own policy.
7. It is not intended that this policy, and its associated procedures, be used to raise concerns which fall within the scope of other more appropriate council procedures where these are available, for example the grievance procedure (where you complain about your own treatment as an employee) or the

complaints procedure, where the public can complain about the Council's services.

8. If you are unable to access the information from the intranet, please contact Human Resources and Development 01743 253949 who will arrange to send an electronic copy.

Serious concerns

9. There are existing procedures in place to enable you to lodge a grievance about your own employment. This policy is intended to cover concerns outside the scope of those procedures. The concern may be that something:
 - is unlawful;
 - is against the Council's Standing Orders, Financial Rules or other policies;
 - does not meet established standards or working practices;
 - amounts to improper conduct;
 - is an abuse of vulnerable adults;
 - that relates to the abuse of children;
 - is damaging the environment;
10. Theft, fraud, bribery, corruption, discrimination, environmental misuses are all types of things which would fall into these categories.

Protecting those who speak up about wrong doing

Harassment or victimisation

11. The Council recognises that deciding to report a concern can be difficult, not least because of the fear of possible reprisals. The Council will not tolerate harassment or victimisation and will take action to prevent this when you raise a concern.
12. This does not mean that, if you are already the subject of disciplinary or redundancy procedures, that those procedures will be halted as a result of your whistleblowing.

Confidentiality

13. The Council will do its best to protect your identity when you raise a concern and do not want your name to be disclosed. It must, however, be appreciated that the investigation process may reveal the source of the information and a statement by you may be required as part of the evidence.

Anonymous allegations

14. This policy encourages you to put your name to your allegation. Concerns expressed anonymously are much less powerful and are more difficult to act upon, but they will be considered at the discretion of the Council. In exercising this discretion, the factors to be taken into account would include:
 - the seriousness of the issues raised;
 - the credibility of the concern;
 - the likelihood of confirming the allegation from attributable sources.

Untrue allegations

15. If you make an allegation, but it is confirmed by the investigation that there is no wrongdoing, no action will be taken against you. If, however, you make malicious or vexatious allegations, disciplinary action may be taken against you, but the matter would be referred to the appropriate Chief Officer before any action is taken.

Support to you

16. Throughout and after this process, you will be given full support from Senior Management, your concerns will be taken seriously, and the Council will do all it can to help you throughout any investigation.

How to raise a concern

17. As a first step, you should normally raise concerns with your immediate Supervisor or Line Manager. This will depend, however, on the seriousness and sensitivity of the issues involved and who is thought to be involved in the wrongdoing. If management is involved, you should approach:

- the Head of Paid Service - if the wrongdoing is about standards of behaviour;
- the **Head of Legal, Democratic and Strategic Planning Services**, Monitoring Officer- if the wrongdoing is thought to be illegal;
- the Section 151 Officer - if the wrongdoing is about improper payments;
- the Audit Service Manager - if the wrongdoing is a fraud;
- the **Head of Business Growth and Prosperity** – if the wrongdoing is an environmental issue;
- Director of Children's Services - if the wrongdoing is a safeguarding issue.

18. Alternatively, you can call the Whistleblowing Hotline, 01743 252627 or invite your trade union or professional association to raise the matter on your behalf.

19. Concerns can be raised in writing. If you choose to do this, you should write a letter to the Audit Service Manager, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

20. The earlier you express concern, the better and the easier it will be to take action. Concerns are better raised in writing. You should try to set out:

- the background and history to your concern;
- dates and places where possible;
- the reasons for your concern.

21. Further advice and guidance on what to do can be found in the:

- guidance note on environmental issues;
- the Harassment and Bullying Policy;
- Shropshire Safeguarding Children's Board Policy;
- Multi Agency Adult Protection Policy.

22. The above policies can be found on shropshire.gov.uk website. Information for reporting a child protection concern can be found at:

www.shropshire.gov.uk/childrenfamilies.nsf and an adult protection concern at:
http://www.telford.gov.uk/info/731/protection_of_vulnerable_adults/1680/shropshire_and_telford_and_wrekin_safeguarding_adults_board
or you can telephone the Council on the numbers set out in this leaflet to discuss your concern.

How will the council respond?

23. The action taken will depend on the nature of the concern. The matters raised may:

- be investigated internally within the Council but independently of those directly involved;
- be referred to the police;
- be referred to the external auditor;
- form the subject of an independent inquiry.

24. In order to protect individuals and the Council, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. These will be made confidentially. Concerns or allegations which fall within the scope of specific procedures (for example, child protection or discrimination issues) will normally be referred for consideration under those procedures. Some concerns may be resolved by agreed action without the need for investigation.

25. Within ten working days of receipt we will write to you;

- acknowledging that the concern has been received;
- indicating how we propose to deal with the matter;
- giving an estimate of how long it will take to provide a final response;
- telling you whether any initial enquiries have been made;
- telling you whether further investigations will take place and, if not, why not.

The standards of conduct

26. Below are some guidelines to help you adhere to the standards Shropshire Council expects of all its staff:

- Whenever you have to make a decision, do so for valid business, commercial or public interest reasons, not for private and personal reasons;
- Do not under any circumstances accept money or gifts or hospitality from any individual or organisation that might influence your decisions or actions at work;
- If you are involved in appointing people to jobs or public positions, awarding contracts, or recommending people for awards or other benefits of any kind, follow defined guidelines and make your choice on merit alone;
- Whatever decisions or activities you are involved in, be open about them; be prepared to account for them to the public and open them up to whatever scrutiny is appropriate. This means giving meaningful reasons for your decisions and only restricting information when to do so is clearly in the wider public interest;
- Declare any private or personal interest which is, or may be seen by the public, as relevant to your public duties. "Private interest" includes financial and non-financial interests, whether it would be to your advantage or disadvantage;

- Take action to resolve any conflicts of interest in a way which protects the public interest and maintains public confidence. Take advice if in any doubt from the Monitoring Officer;

27. Promote these standards at all times, by leadership and by example.

Follow proper procedures

28. One of the best ways of guarding against corruption is to ensure that proper procedures are followed – in the way decisions are taken, in the way contracts are awarded and the way that staff conduct themselves.

29. The most important of these procedures are described within the Constitution and elsewhere as follows:-

- Financial Rules;
- Contract Rules;
- Members' and Staff' Codes of Conduct;
- Computer Facilities Code of Practice;
- Delegations (or decision making powers);
- Recruitment and Selection Code of Practice;
- Gifts and Hospitality;
- Harassment and Bullying Procedure.

30. Actions which breach these procedures are not only unauthorised, but can lead to loss of public confidence and can be corrupt and require legal action to be taken.

31. As with any other concerns on standards, you should report breaches of these procedures. Contact the Monitoring Officer on 01743 252763 or the Audit Service Manager on 01743 252027.

Remember – if you have serious concerns it is your duty to tell us and our duty to protect and support you, if you do.

Operations and Director Contacts

Chief Executive	(01743) 25 <u>2007</u>
Section 151 Officer	(01743) 255011
Head of Legal and Democratic Services	(01743) 252763

Review of Policy

The policy will be reviewed at regular intervals in conjunction with changes to legislation that may impact upon it.

June 2015

Shropshire Council

Public Whistleblowing: 'Speaking up about wrongdoing'

How do I raise a concern?

Ring the Whistleblowing Hotline (**01743 252627**

Or

Write to the Audit Service Manager, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND.

Or

Contact a senior officer directly, specific contact details for officers can be found on our web site <http://www.shropshire.gov.uk> or by telephoning Customer Services on 0345 678 9000

What information should I provide?

- Background and history of the concern.
- Names, dates and places where possible, and
- The reason why you are particularly concerned about the situation.

You are not expected to prove the truth of your raised concern. You will need to demonstrate to the person contacted that there are sufficient grounds for your concern.

The earlier you express the concern the easier it will be to take appropriate action.

Introduction

- 1 Shropshire Council is committed to the highest possible standards of openness, honesty, integrity and accountability. As part of this commitment, the council is keen that any activity which falls below these standards is reported to the council, in order that it can be dealt with promptly. The council, whilst making every effort to deal fairly and honestly in providing public services, acknowledges that there may be occasions when members of the public suspect that there is or may be something wrong regarding the activities of the council which needs prompt action to correct it.
- 2 The council recognises the need to encourage anyone with concerns about any aspect of the council's work to come forward and voice those concerns. Usually, these are easily resolved. However, when these are about unlawful conduct, financial malpractice or dangers to the public, people or the environment, it can be difficult to know what to do. Specific examples could include:
 - a criminal offence (e.g. fraud, theft, bribery, corruption etc.) may have or has been committed;
 - a miscarriage of justice has been or is likely to occur;
 - the health or safety of an individual has been or is likely to be endangered;
 - public funds are being used in an unauthorised manner;
 - the environment has been or is likely to be damaged;
 - the council's own rules have been or are being breached;
 - abuse (e.g. physical or verbal) of someone receiving a council service, or council employee is taking place; and
 - someone receiving a council service is being discriminated against (e.g. on the grounds of disability, race, gender).
- 3 The council has introduced this Whistleblowing Policy: 'Speaking up about Wrongdoing, arrangements for the public', specifically to protect and enable you, as a member of the public, to raise your concerns about suspected malpractice at an early stage and in the right way. We would rather that you raised the matter when it is just a concern rather than wait for definite proof. This Whistleblowing Policy is intended to encourage and enable you to be able to communicate serious concerns with the council rather than overlooking a problem.
- 4 If something is troubling you, which you think we should know about, or look into, please use this policy. Don't ignore the concern. **If in doubt – raise it!**
- 5 Concerns or allegations which fall within the scope of individual schools should normally be referred for consideration direct to the school's Chair of Governors.

Scope and objectives

Scope

- 6 This policy is provided for use by anyone who is not employed by the council (staff have their own policy). This includes any:
 - member of the public;
 - councillor;

- other local authorities;
- council service:
 - consultants;
 - contractors;
 - customers;
 - partners;
 - providers;
 - recipients and
 - suppliers.

7 It is not intended that this policy, and its associated procedures, be used to raise concerns which fall within the scope of other council procedures, where these are available and more appropriate, for example complaints about service delivery (please see the Council's Complaints Procedure¹).

Objectives

- 8 The objectives of this policy are to encourage you as a member of the public to:
- feel confident about raising serious concerns;
 - feel reassured that, if you raise any concerns and reasonably believe them to be true (i.e. "Whistle blow"), your concerns will be taken seriously;
 - have a range of ways in which to raise concerns and to receive appropriate feedback on any action taken;
 - ensure that you receive an appropriate response from the council to the concerns you have raised and, if not satisfied, show how you may take the matter further if you are dissatisfied with the response.

Safeguards

Harassment or victimisation

9 The council recognises that the decision to report a concern can be a difficult one to make, not least because of the fear of possible reprisals. The council will not tolerate victimisation and will take appropriate action to prevent this when you raise a concern.

Confidentiality

10 The council will do its best to protect your identity when you raise a concern and do not want your name to be disclosed (information relating to the investigation will be strictly controlled on a need to know basis). However, it is not easy for the council to act on complaints that are made anonymously. If you ask us for your identity to be kept confidential, we will not disclose it without your consent or unless we are required to do so by a Tribunal, Court of Law or an Act of Parliament. If the situation arises where we are not able to resolve the concern without revealing your identity (e.g. a statement by you may be required as part of the evidence), we will discuss with you whether and how we can move forward.

¹ <https://www.shropshire.gov.uk/customer-service/give-us-some-feedback/>

Concerns raised anonymously

11 This policy strongly encourages you to put your name to your concern. Concerns expressed anonymously will be much more difficult for us to look into or to protect your position or to give you feedback. Concerns raised anonymously are much less powerful and less likely to be effective, but they will be considered at the discretion of the council.

12 In exercising discretion, the factors to be taken into account will include the:

- seriousness of the issues raised;
- credibility and plausibility of the concern; and
- likelihood of confirming the allegation from the available sources.

How to raise a concern directly with the council

13 As a first step, you should normally call the **Whistleblowing Hotline, 01743 252627**.

14 You can also raise your concern directly with the council's Audit Service Manager, the Head of Paid Service, Section151 Officer, or relevant Senior Manager of the service area involved. This depends, however, on the seriousness and sensitivity of the issues involved and who is thought to be involved in the malpractice. For example, if you believe that management of the particular service area is involved then, alternatively, the following individuals can be contacted.

- Head of Paid Service – if the wrong doing is about standards of behaviour;
- **Head of Legal, Democratic and Strategic Planning Services** - Monitoring Officer - if the wrongdoing is thought to be illegal;
- Section151 Officer – if the wrongdoing is about improper payments;
- Audit Service Manager – if the wrongdoing is a fraud;
- **Head of Business Growth and Prosperity** – if the wrongdoing is an environmental issue.
- Head of Children's Safeguarding - if the wrongdoing is a safeguarding issue.

Please say if you want to raise the matter in confidence, so the person you contact can make appropriate arrangements.

Specific contact details for council officers can be found on our web site <http://www.shropshire.gov.uk> or by ringing Customer Services on 0345 678 9000. A number of key officer contacts appear in annex one below, along with a number of external contacts in annex two.

15 Concerns are better raised in writing. If you choose to do this, you should write a letter to the Audit Service Manager, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND. You are invited to set out:

- the background and history of the concern,
- names, dates and places where possible, and
- the reason why you are particularly concerned about the situation.

If you do not feel able to put your concern in writing, you can telephone or meet the appropriate officer.

16 Further advice and guidance on what to do can be found in the:

- Guidance note on environmental issues;
- Shropshire Safeguarding Children's Board Policy;
- Multi Agency Adult Protection Policy

These policies can be found on the council's website at www.shropshire.gov.uk

17 The earlier you express the concern the easier it will be for the council to take appropriate action.

18 You are not expected to prove the truth of your concern, but you will need to demonstrate to the person contacted that there are sufficient grounds for your concern.

How the council will respond

19 The action taken by the council will depend on the nature of the concern. The matters raised may be:

- investigated internally;
- referred to the police;
- referred to the council's external auditor,
- form the subject of an independent enquiry.

20 In order to protect individuals and the council, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or allegations which fall within the scope of specific procedures (for example, child protection) will normally be referred for consideration under those procedures. Some concerns may be resolved by agreed action without the need for investigation.

21 Within ten working days of a concern being received, the council will contact you to:

- acknowledge that the concern has been received;
- indicate, in overall terms, how it proposes to deal with the matter.

22 The amount of contact between you and the council officers considering the issues will depend on the nature of the matters raised, the potential difficulties involved, and the clarity of the information provided. If necessary, they may contact you for further information.

23 The council will take steps to minimise any difficulties which you may experience as a result of raising a concern.

24 The council accepts that you need to be assured that the matter has been properly addressed and will inform you of the action it is taking or has taken.

How the matter can be taken further

25 This policy is intended to reassure you and provide clear information to help you raise concerns in confidence and directly with the council.

26 We hope you will be satisfied with its response. If you are not, or if you feel for any reason, you can't raise the matter directly with the council then possible alternative points of contact points are listed at Annex 2. Please be assured that we would rather you raised a matter with an appropriate regulator or outside body than not at all.

The responsible officer

27 The Council's Monitoring Officer has overall responsibility for the maintenance and operation of the Whistleblowing Policy for the public. The Monitoring Officer will maintain a corporate register of the number and nature of the concerns raised and the outcomes (but in a form which will protect your confidentiality) and will report as necessary to the Head of Paid Service and the council, where appropriate.

28 The policy will be reviewed on a regular basis to ensure that it remains up to date and effective. The review will be carried out by the:

- Head of Legal and Democratic Services - Monitoring Officer;
- Audit Service Manager.

Responsible Officer: Monitoring Officer

Date: June 2015

Review Date: June 2016

Contact Details (Shropshire Council) Annex 1 Contact	Details
<i>Head of Legal, Democratic and Strategic Planning Services- Monitoring Officer</i>	Tel no: 01743 252763 Email: claire.porter@shropshire.gov.uk
Section151 Officer	Tel no: 01743 <u>255011</u> Email: jameswalton@shropshire.gov.uk
<i>Head of Growth and Prosperity</i> – if the wrongdoing is an environmental issue.	Tel no: 01743 25 <u>2503</u> Email: andrew m.evans@shropshire.gov.uk
Director of Children's Services - if the wrongdoing is a safeguarding issue.	Tel no: 01743 <u>254201</u> Email: karen.bradshaw@shropshire.gov.uk
Audit Service Manager	Tel no: 01743 <u>257739</u> Email: ceri.pilawski@shropshire.gov.uk
Chief Executive	Tel no: 01743 25 <u>2007</u> Email: clive.wright@shropshire.gov.uk Address: Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND. Web site: www.shropshire.gov.uk

Contact Details (External Organisations) Annex 2 Contact	Details
<u>Grant Thornton</u> <u>The Council's external auditors</u>	Address: <u>International, Colmore Circus Queensway, Birmingham B4 6AT</u> Tel no. 0121 212 4000
The Local Government Ombudsman	Address: <u>PO Box 4771 Coventry CV4 0EH</u> E-mail: advice@lgo.org.uk Web: www.lgo.org.uk Tel no. 03040 061 0614
The Equalities and Human Rights Commission	Address: <u>FREEPOST Equality Advisory Support Service FPN4431</u> Email: <u>correspondence@equalityhumanrights.com</u> Web: www.equalityhumanrights.com Tel no. 0808 800 0082
The Health and Safety Executive (Regional Office)	Address Health and Safety Executive, Lyme Vale Court, Lyme Drive, Parklands Business Park, Newcastle Road, Trent Vale, Stoke on Trent, ST4 6NW Fax: 01782 602300 E-mail: Web: www.hse.gov.uk Tel no. 0845 345 0055
The Environment Agency (Regional Office)	Address: Sapphire East, 550 Streetsbrook Road, Solihull, West Midlands, B91 1QT E-mail: enquiries@environment-agency.gov.uk Web: www.environment-agency.gov.uk Tel No. 0370 850 6506
Citizens Advice Bureau	Please refer to 'Yellow Pages' for local information Web: <u>www.citizensadvice.org.uk/</u>
Police	Please refer to 'Yellow Pages' for local information Web: <u>www.westmercia.police.</u> Tel No. non emergencies 101
Your local councillors (if you live in Shropshire)	Web site: www.shropshire.gov.uk

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee 25 th June 2015	

2014/2015 Settlement Agreements

Responsible Officer Dawn Coss, HR Business Partner
e-mail: Dawn.coss@shropshire.gov.uk Tel: 01743 281375

1. Summary

Settlement Agreements are legally binding agreements used within the Council in limited circumstances, following a strict authorisation process, used to mitigate risk to the Council (financially, reputationally) either as an exit strategy or to resolve conflict where there is a risk of an Employment Tribunal claim being made. Settlement Agreements should only be used as a method to resolve a dispute when all other options have been exhausted.

The discussions that take place in order to reach a settlement agreement in relation to an existing employment dispute can be, and often are, undertaken on a 'without prejudice' basis. This 'without prejudice' confidentiality does not, however, apply where there is no existing dispute between the parties. Section 111A of the Employment Rights Act 1996 was introduced to allow greater flexibility in the use of confidential discussions as a means of ending the employment relationship. Section 111A, which will run alongside the 'without prejudice' principle, provides that even where no employment dispute exists, the parties may still offer and discuss a settlement agreement in the knowledge that their conversations cannot be used in any subsequent unfair dismissal claim. Where an Employment Tribunal finds that there has been improper behaviour in such a case, any offer of a Settlement Agreement, or discussions relating to it, will only be inadmissible if, and in so far as, the Employment Tribunal considers it just. (See Appendix A for further information).

This report provides an update to the Shropshire Council Audit Committee on the number of Settlement Agreements for Council employees over the last year, 1 April 2014 – 31 March 2015, (excluding school based employees).

2. Recommendations

The Audit Committee is asked to:

- a. Consider and comment on the contents of the report.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The Council has in place an effective authorisation process to limit the use of Settlement Agreements.
- 3.2 The Council proactively encourages the use of policies and procedures (Disciplinary, Grievance, Performance Management, Capability) encouraging the discussion and appropriate management of disputes\conflicts that arise within the workplace, limiting the risk of Employment Tribunal Claims being made. The use of Settlement Agreements contribute to minimise risk to the Council of potentially expensive and time consuming Tribunal claims that could have a detrimental effect on the reputation of the Council, both internally and externally. Where individuals feel unable to raise concerns through these channels of communication, the Council has in place a Whistleblowing policy that contributes to our zero tolerance of fraud, bribery and corruption. There were no Settlement Agreements entered into as a result of issues raised through the Whistleblowing Policy.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

- 4.1 The management and investigation of issues raised in response to the use of Settlement Agreements are met from approved budgets.

5. Background

- 5.1 This is the first report to Audit Committee on the number of Settlement Agreements with Council staff during 2014/15.
- 5.2 A Settlement Agreement is a written agreement signed by the parties which, in exchange for an agreed sum of money and any other agreed terms, acts to bar the claimant from taking any of the claims referred to in the Settlement Agreement to any Court or Employment Tribunal.

Settlement agreements (formerly known as compromise agreements prior to 29 July 2013) are legally binding contracts which can be used to end an employment relationship on agreed terms. They can also be used to resolve an ongoing workplace dispute, for example, a dispute over holiday pay.

Settlement agreements can be proposed by either an employer or an employee, although it will normally be the employer. They can also be agreed between an employer and someone other than an employee (or former employee) who may be able to bring a claim to an Employment Tribunal – for example, an unsuccessful

job applicant who feels they were discriminated against at job interview, or a worker who has a complaint about holiday pay.

5.3 Key points about Settlement Agreements:

Settlement agreements are legally binding contracts that can waive an individual's rights to make a claim covered by the agreement to an Employment Tribunal or Court.

The agreement must be in writing.

They usually include some form of payment to the employee and may often include a reference.

They are voluntary – they include terms and conditions that are mutually agreed, and parties do not have to enter into them if they do not wish to do so.

They can be offered at any stage of an employment relationship.

5.4 Risks of successful Employment Tribunal claims

If an individual is successful with their claim, the Tribunal can order the Employer to do certain things depending on the type of case, examples include;

- Giving the claimant their job back
- Paying compensation if you can't give the claimant their job back
- Paying witness expenses
- Paying damages or loss of earnings
- Paying the claimant's Tribunal fees

Paying compensation is the most common outcome of a Tribunal. Whilst there are limits on compensation payments that an Employment Tribunal can award, it should be noted that there are no limits on the compensatory award that may be awarded for dismissals for health and safety reasons, dismissals for making a protected disclosure (whistleblowing), or unlawful discrimination based on one of the protected characteristics (sex, race, age, sexual orientation, disability, religion or belief).

5.5 Financial penalties on Employers who lose at Tribunal

With effect from 6 April 2014, in addition to the award made to the claimant, the Employment Tribunal can impose a financial penalty on the losing employer. These penalties will be payable to the Secretary of State if the Tribunal finds the employer has breached the employees' employment rights and has 'one or more aggravating feature', for example where the treatment of the employee was

deliberate or malicious, where the employer had repeatedly breached the right in question, or where the employer has a dedicated Human Resources Department.

The highest sum awarded by the Employment Tribunal Award in 2013-2014 (latest full year statistics) was £3,402,245 and was awarded in an unfair dismissal claim. High awards were also made in claims arising from race discrimination, sex discrimination, disability discrimination and age discrimination. (See Appendix A for further information.)

5.6 Settlement Agreements 2014/2015

In 2014/15, there were 13 settlement agreements entered into with employees of Shropshire Council, none of these relating to whistleblowing:

Directorate	Number	£
Adult Services	5	38,873.42
Children's Services	4	49,247.80
Commissioning	2	16,178.89
Public Health	0	0
Resources & Support	2	42,300.00
	13	146,600.11

Settlement Agreements are not entered into until a business case has been completed, detailing associated costs, risks and recommendations. These were agreed after a strict sign off process involving:

Clive Wright, Chief Executive
 Michele Leith, Head of Human Resources and Development
 James Walton, Head of Finance, Governance and Assurance
 Appropriate Head of Service within the Directorate.

The starting point for calculations of a Settlement Agreement is the statutory minimum amount that the employee would receive if made redundant. Legal Advice is always sought – separate for both parties.

The Council also pay £250 + VAT towards the cost of a solicitor (to represent the employee and provide advice on the Settlement Agreement) - invoice required and paid by the Service Area.

6. Conclusion

- 6.1 During the Financial Year 2014/2015 Settlement Agreements were used in a small number of cases, following the authorisation procedure that is in place.

List of background papers (This MUST be completed for all reports but does not include items containing exempt or confidential information) – None

Cabinet Member (Portfolio Holder) Keith Barrow (Leader of the Council) and (Chairman of Audit Committee)

Local Member- N/A

Appendices:

Appendix A - Further information on Settlement Agreements and Employment Tribunals

Appendix B - Flowchart of Settlement Agreement Process and Authorisation

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Appendix A

Further information on Settlement Agreements and Employment Tribunals

1. Advantage/Disadvantages of using Settlement Agreements

Settlement Agreements are only one way of handling potentially difficult employment situations - problems in the workplace are best resolved in open conversations, including, where appropriate, through the use of performance management, or informal and formal disciplinary or grievance procedures. The Council proactively encourages open communication and has in place robust policies and procedures to deal with workplace disputes.

Some advantages/disadvantages of using Settlement Agreements:

Advantages:	Disadvantages:
√ Can provide a swift and dignified end to an employment relationship that is not working	× The cost of paying an agreed financial sum to an employee
√ Can avoid the time, cost and stress involved for both parties in a tribunal claim	× The potential risk to the ongoing employment relationship with the individual if a settlement is not agreed
√ Can provide compensation and often a reference for employees	× The potential risk to employment relations in the wider workforce if used inappropriately or as a substitute for good management practices

Source: ACAS Settlement Agreements: A Guide

There are a wide range of scenarios in which Settlement Agreements might be offered. These include situations where the Council does not want to follow a potentially long, drawn out process, such as a full performance/capability review or a full redundancy process, before being able to terminate. They are used either as an exit strategy or to resolve conflict where there is a risk of an Employment Tribunal (ET) claim being made. Settlement Agreements should only be used as a method to resolve a dispute when all other options have been exhausted.

A Settlement Agreement may be considered where:

- There is a likelihood of an employment tribunal (ET) claim being made
- There is a significant enough breach in ER legislation;
- There is a significant enough breach of contract of employment.

Where there are ongoing issues such as alleged acts of discrimination or where the employee has raised a grievance which the Council have not felt able to uphold, it may be felt that trust and confidence has completely broken down. It may be in everyone's interests for a termination of employment on mutually agreeable terms. Legal advice should be taken before offering a Settlement Agreement to ensure that the Council is not exposed to an increased risk of litigation.

2. Settlement Agreement Discussions

Where the employer and employee are unable to reach an agreement, the settlement discussions cannot usually be referred to as evidence in any subsequent unfair dismissal claim. Where the settlement discussions are held to resolve an existing dispute between the parties they cannot be used as evidence in any type of claim.

Employees considering making an Employment Tribunal claim must contact ACAS first, who then offer 'early conciliation' to try and resolve the dispute between the employer and employee quickly and cost effectively, which can include Settlement Agreements.

It is important to be aware that communications with an ACAS conciliation officer, as to the acceptance of terms offered by way of a proposed settlement, may be capable of being binding upon either party, even without the agreement being confirmed in writing, or any such written document being signed.

Discussions that take place in order to reach a Settlement Agreement in relation to an existing employment dispute can be, and often are, undertaken on a 'without prejudice' basis. In situations where there is no existing dispute between the parties, the 'without prejudice' principle cannot apply but Section 111A of the Employment Rights Act 1996 can apply. In these circumstances the offer of, and discussions about, a Settlement Agreement will not be admissible in a Tribunal (in an unfair dismissal case) so long as there has been no improper behaviour. Where an Employment Tribunal finds that there has been improper behaviour in such a case, any offer of a Settlement Agreement, or discussions relating to it, will only be inadmissible if, and in so far as, the Employment Tribunal considers it just.

Where there is an existing dispute between the parties, offers of a Settlement Agreement, and discussions about such an agreement, may be covered by both the 'without prejudice' principle and Section 111A. The 'without prejudice' principle will apply unless there has been some 'unambiguous impropriety'. As the test of 'unambiguous impropriety' is a narrower test than that of improper behaviour, this means that pre-termination negotiations that take place in the context of an existing dispute will not be admissible in a subsequent unfair dismissal claim unless there has been some 'unambiguous impropriety'.

3. Employment Tribunal Compensation Limits

Compensation is payable from the day the judgement is received. Interest is charged from the day the judgement is received (not payable if the whole award is paid within 14 days). The Tribunal usually works out the amount based on the financial loss the person has suffered as a result of the Employer's actions. Employers may also have to pay back any Jobseeker's Allowance, Income Support or Employment Support Allowance (ESA) that the claimant claimed while taking their case to the Tribunal.

Compensation Limits:

Payments	6 April 2014	6 April 2015
Limit on a week's pay for calculating redundancy and unfair dismissal basic award	£464	£475
Maximum basic award for unfair dismissal and statutory redundancy payment (30 weeks' pay subject to the limit on week's pay)	£13,920	£14,250
Minimum basic award for dismissal on Trade Union, health and safety, occupational pension scheme trustee, employee representative and on working time grounds only	£5,676	£5,807
Maximum compensatory award for unfair dismissal	* £76,574	* £78,335
Minimum compensation for employees excluded/expelled from Trade Union	£8,669	£8,868
Contract claims (if a claim for breach of contract (eg wrongful dismissal) is brought in an employment Tribunal, compensation is capped at £25,000. If the claim is for more than £25,000, it can be made in the County Court or High Court.	£25,000	£25,000
Amount of award for unlawful inducement relating to Trade Union membership or activities, or for unlawful inducement relating to collective bargaining	£3,715	£3,800

*Compensatory award: lower of £78,335 or 12 months' gross pay

4. Financial Penalties on Employers who lose at Tribunal

In addition to the award made to the claimant, the Employment Tribunal (effective from 6 April 2014) can impose a financial penalty on the losing employer.

The penalty is half of the total award made by the Tribunal with a minimum amount of £100 and a maximum of £5,000; a 50% discount is applied for employers who pay within 21 days of the Tribunal's decision. The Tribunal will look at the employer's ability to pay in deciding whether to order the employer to pay a penalty.

Example Tribunal Costs awarded: Maximum, median and average awards for unfair dismissal and discrimination claims 2013-2014:

	Maximum award	Median Award	Average Award
Unfair dismissal	£3,402,245	£5,016	£11,813
Race discrimination	£162,593	£5,513	£11,203
Sex discrimination	£168,957	£8,039	£14,336
Disability discrimination	£236,922	£7,518	£14,502
Religious discrimination	£22,762	£3,191	£8,131
Sexual orientation discrimination	£27,659	£6,824	£8,701
Age discrimination	£137,000	£6,000	£18,801

NB: The highest unfair dismissal award above was in excess of the statutory cap of £76,574 (now increased to £78,335) but this cap does not apply where the unfair dismissal is for whistleblowing or for raising certain health and safety issues.

The cap on the compensatory award for unfair dismissal increased to £78,335 as a result of The Employment Rights (Increase of Limits) Order 2015 (SI 2015/16) which came into force in Great Britain on 6 April 2015 (this applies where the effective date of termination is on or after 6 April 2015).

In a successful case of Unfair Dismissal, the Tribunal will usually order the Employer to pay the claimant a sum consisting of a basic award and a compensatory award. The basic award is calculated in the same way as statutory redundancy pay, while the compensatory award is an amount based on the employee's loss of earnings. The overall limit on the compensatory award is currently £78,335 (or a sum equivalent to the claimant's annual salary, whichever is the lower). Alternatively, the Tribunal may order reinstatement or re-engagement.

Compensation following a successful claim for unlawful discrimination is unlimited. In determining compensation, Employment Tribunals have the discretion to order the employer to reimburse the claimant's Tribunal fees (but this is not automatic).

Tribunals do have the power to make a standard costs order against either party for any costs incurred by the other party in certain defined circumstances. A costs order may be made where:

There is an unreasonable postponement or adjournment of either the preliminary hearing or the final hearing

A party has, without good reason, in bringing or conducting the proceedings, acted vexatiously, abusively, disruptively or otherwise unreasonably

The bringing or conducting of the proceedings by a party has been misconceived

The party has, without good reason, not complied with an order or practice direction

Where a party continues with a case after being ordered to pay a deposit at a preliminary hearing and subsequently loses the case, there may similarly be strong grounds for making an order for costs.

Since 29 July 2013, employment judges may make cost awards exceeding £20,000 following a detailed assessment. (The Enterprise and Regulatory Reform Act 2013 enabled the Secretary of State to amend the Employment Rights Act 1996 (under Section 111A). The Tribunal may (but is not obliged to) take into consideration the party's ability to pay when considering whether it should make a costs order and for how much the order should be. If the costs award is £20,000 or less, the Tribunal may make the award without conducting a detailed assessment. Awards for over £20,000 may either be assessed by the employment judge or alternatively he or she may refer the matter on to the relevant civil court for a detailed assessment.

As an alternative to a costs order, a preparation time order may be made in favour of a party who has not been legally represented at a hearing. This is defined as time spent by the party or their employees carrying out preparatory work that is directly relating to the proceedings and/or time spend at the hearing itself. An hourly rate is applied (currently £35 from 6 April 2015).

The Tribunal can also make a wasted costs order directly against a party's representative if it considers that the representative has caused another party to incur costs as a result of any improper, unreasonable or negligent act or omission. A wasted costs award is, however, only permissible where the representative in question is one who has been paid for his or her services. Lay representatives can also be awarded costs at the same rate as is applied to preparation time (currently £35 per hour from 6 April 2015).

Costs awarded in Employment Tribunals cases 2013/14

Costs Awarded *	No of Cases Awarded to Claimant	No of Cases Awarded to respondent
<£200	47	124
£201-£400	36	40
£401-£600	16	58
£601-£800	7	28
£801-£1000	14	62
£1,001-£2,000	37	109
£2,001-£4,000	28	88
£4,001-£6,000	19	36
£6,001-£8,000	3	30
£8,001-£10,000	11	29
£10,000+	24	43
All	242	647
Maximum award	£58,022	
Median award	£1,000	
Average (mean) award	£2,856	

* Costs Awarded – does not include costs awarded for waste or preparation

Source: Employment and EAT Tribunal Statistics Financial Year 2013/2014 (completed statistics for 2014/15 not currently available)

5. Reaching a Settlement Agreement

For the Settlement Agreement to be legally binding the following conditions must be met:

The agreement must be in writing.

The agreement must relate to a particular complaint or proceedings.

The employee must have received advice from a relevant independent adviser, such as a lawyer or a certified and authorised member of a Trade Union, on the terms and effect of the proposed agreement and its effect on the employee's ability to pursue that complaint or proceedings before an Employment Tribunal

The independent adviser must have a current contract of insurance or professional indemnity covering the risk of a claim by the employee in respect of loss arising from the advice.

The agreement must identify the adviser.

The agreement must state that the applicable statutory conditions regulating the Settlement Agreement have been met.

Employees should be given a reasonable amount of time to consider the proposed conditions of the agreement; the ACAS Code of Practice on Settlement Agreements specifies a minimum of 10 calendar days unless the parties agree otherwise.

Settlement Agreements are voluntary and parties do not have to agree to them or enter into discussion about them. There can be a process of negotiation during which both sides make proposals and counter proposals until an agreement is reached or both parties decide no agreement can be reached.

If a Settlement Agreement is not reached and depending on the nature of the dispute or problem, resolution may be pursued through a performance management, disciplinary or grievance process, or mediation whichever is the most appropriate. It is important that employers follow a fair process and use the Acas Code of Practice on Discipline and Grievance procedures because, if the employee is dismissed, failure to do so may be grounds for a claim of unfair dismissal.

6. Ending the employment relationship

When the Settlement Agreement includes an agreement to end the employment relationship, then employment can end with the required notice, or the timing can be agreed as part of the Settlement Agreement.

Details of payment and the timing should be included in the agreement; any payments should be made as soon as practicable after the agreement has been reached.

The discussions that take place in order to reach a Settlement Agreement in relation to an existing employment dispute can be, and often are, undertaken on a 'without

prejudice' basis. This means that any statements made during a 'without prejudice' meeting or discussion cannot be used in a Court or Tribunal as evidence. This 'without prejudice' confidentiality does not, however, apply where there is no existing dispute between the parties. Section 111A of the Employment Rights Act 1996 was introduced to allow greater flexibility in the use of confidential discussions as a means of ending the employment relationship. Section 111A, which will run alongside the 'without prejudice' principle, provides that even where no employment dispute exists, the parties may still offer and discuss a Settlement Agreement in the knowledge that their conversations cannot be used in any subsequent unfair dismissal claim.

There are, however, some exceptions to the application of Section 111a of the Employment Rights Act. Claims that relate to an automatically unfair reason for dismissal such as whistleblowing, union membership or asserting a statutory right are not covered by the confidentiality provisions set out in Section 111A. Neither are claims made on grounds other than unfair dismissal, such as claims of discrimination, harassment, victimisation or other behaviour prohibited by the Equalities Act 2010, or claims relating to breach of contract or wrongful dismissal.

The confidentiality provisions of Section 111A are, additionally, subject to there being no improper behaviour. Guidance on what constitutes improper behaviour is contained in Paragraphs 17 and 18 of ACAS Code of Practice on Settlement Agreements (under section 111A of the Employment Rights Act 1996).

Where there is improper behaviour, anything said or done in pre-termination negotiations will only be inadmissible as evidence in claims to an Employment Tribunal to the extent that the Tribunal considers it just. In some circumstances, for instance where unlawful discrimination occurs during a settlement discussion, this may itself form the basis of a claim to an Employment Tribunal. (Where there has been some improper behaviour for these purposes this does not mean that an employer will necessarily lose any subsequent unfair dismissal claim that is brought to an Employment Tribunal. Equally, the fact that an employer has not engaged in some improper behaviour does not mean that they will necessarily win any subsequent unfair dismissal claim brought against them.) Where the parties sign a valid Settlement Agreement, the employee will be unable to bring an Employment Tribunal claim about any type of claim which is listed in the agreement. Where a Settlement Agreement is not agreed, an employee may bring a subsequent claim to an Employment Tribunal but where this claim relates to an allegation of unfair dismissal the confidentiality provisions of Section 111A of the ERA 1996 will apply.

7. Improper behaviour

If a Settlement Agreement is being discussed as a means of settling an existing employment dispute, the negotiations between the parties can be carried out on a 'without prejudice' basis. 'Without prejudice' is a common law principle (i.e. non-statutory) which prevents statements (written or oral), made in a genuine attempt to settle an existing dispute, from being put before a Court or Tribunal as evidence.

This protection does not, however, apply where there has been fraud, undue influence or some other 'unambiguous impropriety' such as perjury or blackmail.

Section 111A of the Employment Rights Act 1996 offers similar protection to the 'without prejudice' principle in that it provides that any offer made of a Settlement Agreement, or discussions held about it, cannot be used as evidence in any subsequent Employment Tribunal claim of unfair dismissal. Unlike 'without prejudice' however, it can apply where there is no existing employment dispute. The protection in Section 111A will not apply where there is some improper behaviour in relation to the Settlement Agreement discussions or offer.

What constitutes improper behaviour is ultimately for a Tribunal to decide on the facts and circumstances of each case. Improper behaviour will, however, include (but not be limited to) behaviour that would be regarded as 'unambiguous impropriety' under the 'without prejudice' principle. The following list provides some examples of improper behaviour – this list is not exhaustive:

- a. All forms of harassment, bullying and intimidation, including through the use of offensive words or aggressive behaviour.
- b. Physical assault or the threat of physical assault and other criminal behaviour.
- c. All forms of victimisation
- d. Discrimination because of age, sex, race, disability, sexual orientation, religion or belief, transgender, pregnancy and maternity and marriage or civil partnership.
- e. Putting undue pressure on a party. For instance:
 - i. Not giving the reasonable time for consideration set out in paragraph 12 of ACAS code
 - ii. An employer saying before any form of disciplinary process has begun that if a settlement proposal is rejected then the employee will be dismissed
 - iii. An employee threatening to undermine an organisation's public reputation if the organisation does not sign the agreement, unless the provisions of the Public Interest Disclosure Act 1998 apply.

The examples set out above are not intended to prevent, for instance, a party setting out in a neutral manner the reasons that have led to the proposed Settlement Agreement, or factually stating the likely alternatives if an agreement is not reached, including the possibility of starting a disciplinary process if relevant. These examples are not intended to be exhaustive.

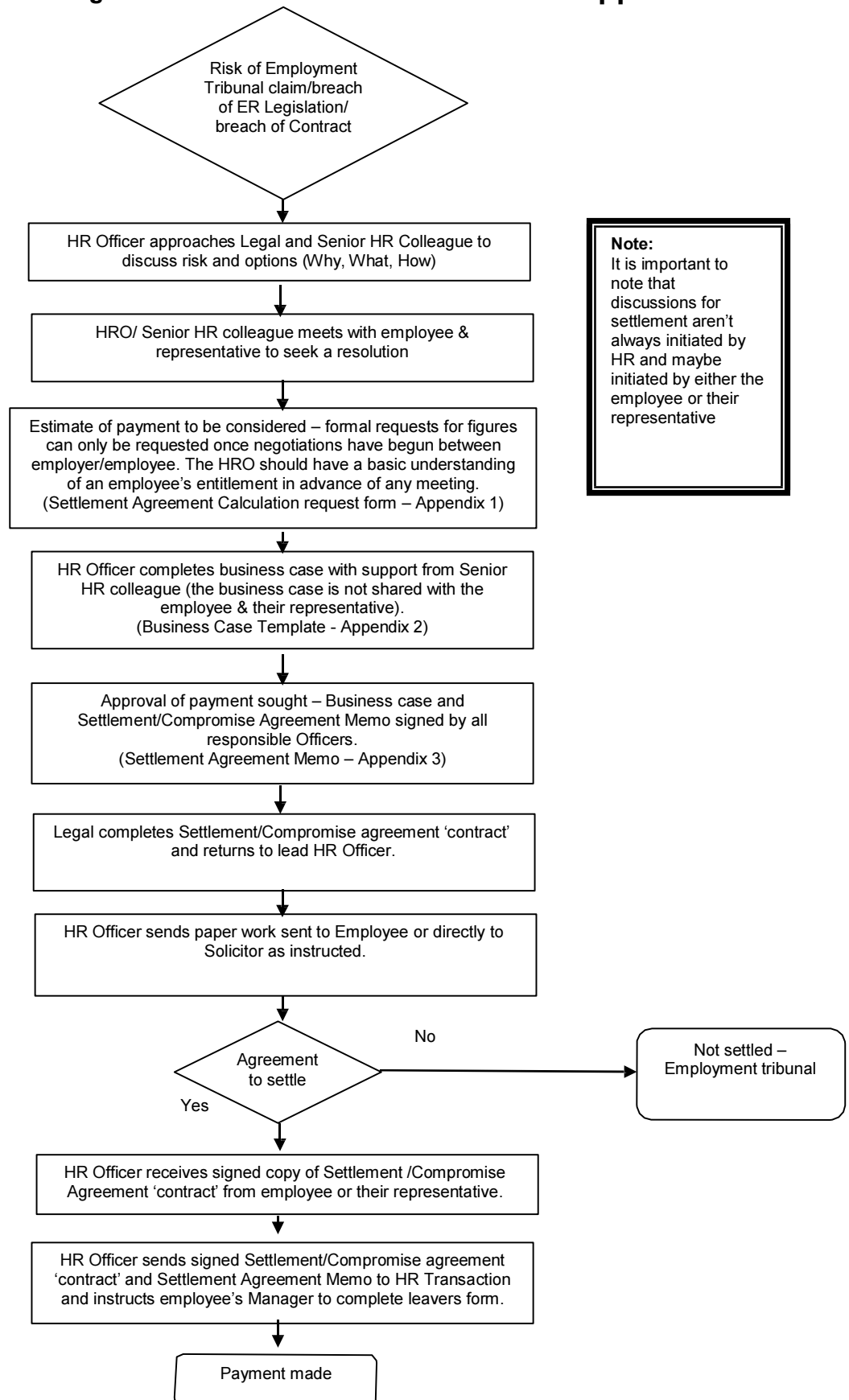
In situations where there is no existing dispute between the parties, the 'without prejudice' principle cannot apply but Section 111A can apply. In these circumstances the offer of, and discussions about, a Settlement Agreement will not be admissible in a Tribunal (in an unfair dismissal case) so long as there has been no improper behaviour. Where an Employment Tribunal finds that there has been improper behaviour in such a case, any offer of a Settlement Agreement, or discussions relating to it, will only be inadmissible if, and in so far as, the Employment Tribunal considers it just.

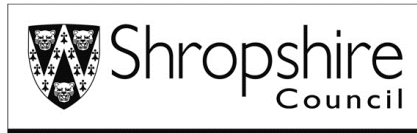
Where there is an existing dispute between the parties, offers of a Settlement Agreement, and discussions about such an agreement, may be covered by both the 'without prejudice' principle and Section 111A. The 'without prejudice' principle will apply unless there has been some 'unambiguous impropriety'. As the test of 'unambiguous impropriety' is a narrower test than that of improper behaviour, this means that pre-termination negotiations that take place in the context of an existing dispute will not be admissible in a subsequent unfair dismissal claim unless there has been some 'unambiguous impropriety'.

In Court or Tribunal proceedings other than unfair dismissal claims, such as discrimination claims, Section 111A does not apply. In these cases, the 'without prejudice' principle can apply where there is an existing dispute at the time of the settlement offer and discussions, meaning that these will not be admissible in evidence unless there has been some 'unambiguous impropriety'.

Flowchart of Settlement Agreement Process and Authorisation

Appendix B





<u>Committee and Date</u>	<u>Item</u>	<u>Paper</u>
Cabinet 10 th June 2015		
Audit Committee 25 th June 2015	Public	
Council 23 rd July 2015		

REVENUE OUTTURN 2014/15

Responsible Officer James Walton

Email: james.walton@shropshire.gov.uk Tel: (01743) 255011

1. Summary

1.1 This report provides details of the revenue outturn position for Shropshire Council for 2014/15 and provides a summary of:

- The revenue outturn for each service area with a commentary on the main variations and an outline of how the position has changed since Quarter 3.
- The movements in the Council's general balance.
- The Council's reserves and provisions.

1.2 The Council's financial position for 2014/15 has improved by £0.672m when compared to projections made at Quarter 3 resulting in a net underspend of £0.300m.

2. Recommendations

2.1 Members are asked to:

- A. Note that the Outturn for the Revenue Budget for 2014/15 is an underspend of £0.300m, this represents 0.05% of the original gross budget of £578m.
- B. Note that the level of general balance stands at £15.206m, which is above the anticipated level included within the Financial Strategy.
- C. Note that the Outturn for the Housing Revenue Account for 2014/15 is an underspend of £0.763m and the level of the Housing Revenue Account reserve stands at £3.076m (2013/14 £2.542m).
- D. Note the increase in the level of Earmarked Reserves and Provisions (excluding delegated school balances) of £17.939m in 2014/15.
- E. Note that the level of school balances stand at £3.957m (2013/14 £5.523m).

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 Details of the potential risks affecting the balances and financial health of the Council are detailed within the report. Each variation from budget is also RAG rated to confirm the level of risk to the Council's balances.

4. Financial Implications

4.1 This report is based on the financial outturn of the Council's budget for 2014/15 and therefore considers the effect that the underspend has on the Council's balances.

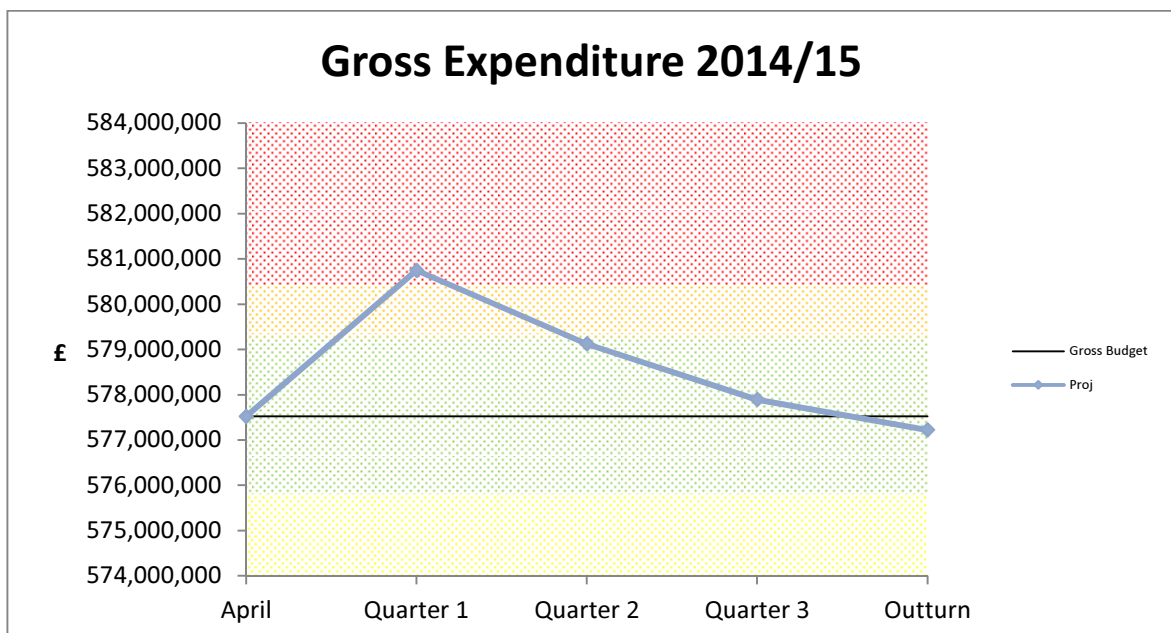
5. Background

5.1 Cabinet has received quarterly monitoring reports on the revenue budget during the course of the year. This has meant that Service Areas have identified problem areas as they have arisen and management have been able to take the action necessary to deal with the issues arising.

6. Overall Position

6.1 The final outturn for 2014/15 shows overall net revenue expenditure of £223.145m and an underspend of £0.300m. The overall position for Service areas and Schools' balances is detailed below:

	£000
Original Budget	223,445
Outturn for 2014/15	223,145
Underspend for 2014/15	(300)



- 6.2 The underspend of £0.300m for 2014/15 is presented below by Service Area (shaded column). End of year entries include items of non-controllable spend (e.g. depreciation) that are not included within service projections throughout the year. To enable comparison with previous monitoring reports, the non-controllable element of spend has been separately identified within this report where relevant. This allows a direct comparison to be made between controllable spend at year end, and projections made throughout the year.

Table 1: 2014/15 Budget Variations Analysed by Service Area (£'000)

Service Area	Revised Budget	Outturn	(Under) / Overspend	Non - Controllable (Under)/Overspend	RAGBY	Controllable (Under)/Overspend
	£'000	£'000	£'000	£'000		£'000
Adults Services	71,896	78,153	6,257	1,466	R	4,791
Children's Services	55,464	55,986	522	(44)	Y	566
Commissioning	84,085	85,105	1,020	1,396	Y	(376)
Public Health	2,273	2,070	(203)	(118)	Y	(85)
Resources & Support	7,950	18,325	10,375	11,147	Y	(772)
Corporate	1,777	(16,494)	(18,271)	(13,847)	Y	(4,424)
TOTAL	223,445	223,145	(300)	0		(300)

- 6.3. The outturn position has improved by £0.672m since Quarter 3 as a result of further underspends achieved across the Council but particularly within Resources & Support. The most significant change was realised in Finance, Governance and Assurance, specifically in relation to costs of collection for the Revenues Team and additional grant income received. Further analysis of the variations to budgets for all service areas is provided within Appendix 1.

7. General Fund Balance

- 7.1 The effect on the Council's Reserves is detailed below. The Council's policy on balances is to have a general fund balance (excluding schools balances) of between ½% and 2% of the gross revenue budget. For 2014/15 the minimum balance required is £2.861m. The general fund balance as at 31st March 2015 is shown in Table 2 below:

Table 2: General Fund Balance As At 31st March 2015 (£'000)

General Fund Balances as at 1 April 2014	14,497
Budgeted contribution to General Fund Balance	409
2014/15 Revenue Outturn	300
General Fund Balance at 31 March 2015	15,206

- 7.2 The General Fund Balance at 31 March is above the level anticipated within the Financial Strategy, however it still lies below the risk based target for 2014/15 which stands at £18.513m.

7.3 The council's policy is to hold general fund balances of between ½ and 2% of the gross revenue budget, however the balance of £15.206m now falls above this policy level. This is considered appropriate given the significant increase in the risk based general fund calculation for 2015/16 to £15.86m (as agreed by Council in February 2015) and the significant level of savings required in the budget strategy for 2015/16. The expectation is that the level of general fund balance will be brought in line with the risk based calculation over years 2 and 3 of the Council's Medium Term Financial Plan, on the basis that all savings targets are achieved. As a result, the budgeted contribution to the general fund balance has been removed from 2016/17 onwards. The risk based calculations in years 2 and 3 are in line with the Council's policy to hold between 0.5% and 2% of gross revenue budget.

8. Housing Revenue Account (Appendix 2)

8.1 The Housing Revenue Account (HRA) outturn for 2014/15 shows an underspend of £0.763m against gross turnover (4.3%) which has mainly arisen due to increased rent income from faster turnaround on voids, an underspend on planned repairs to the HRA properties and a reduced contribution to the bad debt provision for the year due to improved collection rate of rents.

8.2 The underspend takes the closing balance on the HRA Reserve to £3.076m which represents a contingency of £744 per home.

8.3 The HRA also holds the Major Repairs Reserve which is an earmarked reserve required to meet the costs of major repairs on the Council's housing stock. The reserve has decreased in 2014/15 to £1.635m which reflects the increased capital expenditure during the year.

9. Reserves and Provisions (Appendix 4)

9.1 The Council has created a number of specific reserves and provisions to provide for known or anticipated future liabilities and to assist in protecting essential services. Earmarked reserves are balances held for specific items that will occur in the future. Provisions are held to meet expenses that will occur as a result of past events and where a reliable estimate can be made of the obligation.

9.2 The overall position for reserves and provisions is set out in the Statement of Accounts 2014/15, however a detailed breakdown of the balances is contained at Appendix 4, with an explanation of each reserve and provision. These figures may be subject to change before the Council's final Statement of Accounts is produced. The change in revenue reserves and provisions is as follows:

Balance Held	Reserves	Provisions	Bad Debt Provisions	Total Reserves & Provisions
	£000	£000	£000	£000
As at 31 March 2014	40,640	9,393	4,731	54,764
As at 31 March 2015	55,026	11,484	4,628	71,138
Increase/(Decrease)	14,386	2,091	(103)	16,374
Delegated School Balances Movement	(1,565)	0	0	(1,565)
Increase/(Decrease) (excluding Delegated School Balances)	15,951	2,091	(103)	17,939

9.3. Delegated School Balances

9.3.1 The movement in delegated schools' balances is as follows:

	2013/14	2014/15	Increase/ (Decrease)
	£000	£000	£000
Schools:			
- Revenue Balances	3,927	2,564	(1,363)
- Invested Balances	1,550	1,188	(362)
- Extended Schools Grant Balance	378	473	95
Sub Total within Schools	5,855	4,225	(1,630)
Purchasing IT equipment	(215)	(172)	43
Carbon efficiency measures	(118)	(96)	22
Total Delegated School Balances	5,522	3,957	(1,565)

9.3.2 Schools' balances have to be ringfenced for use by schools and schools have the right to spend those balances at their discretion. Of the 133 schools, 122 schools have surplus balances and 11 have deficit balances.

9.3.3 The Extended Schools Grant allocations for schools are paid over during 2014/15, however as the balance will not be fully committed until the end of the school academic year, these balances have been ringfenced to each individual school within School Balances.

9.3.4 Following consultation with the school's forum and head teachers, the school balances have been used to purchase IT equipment for schools, the cost of this equipment is then recharged to schools over the life of that equipment, effectively operating as an internal leasing arrangement. At the end of 2014/15 £171,761 of the £4,225,000 was being used in this way.

9.3.5 School balances have also been used to fund carbon efficiency measures within schools. At the end of 2014/15, £96,165 of the £4,225,000 was used for this purpose.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Revenue & Capital Budget 2014/15

Financial Rules

Revenue Monitoring Report – Quarter 1 2014/15

Revenue Monitoring Report – Quarter 2 2014/15

Revenue Monitoring Report – Quarter 3 2014/15

Cabinet Member

All

Local Member

All

Appendices

App 1 – Service Area Outturn and Actions

App 2 – Housing Revenue Account 2014/15

App 3 – Amendments to Original Budget

App 4 – Reserves and Provisions

Service Area Outturn and Actions 2014/15**Summary**

	Full year					RAGBY
	Budget	Outturn	Total Variation	Non Controllable Variation	Controllable Variation	
	£	£	£	£	£	
Adult Services	71,895,780	78,153,101	6,257,321	1,465,727	4,791,594	R
Children Services	55,464,517	55,986,068	521,551	(43,673)	565,224	A
Commissioning	84,085,030	85,105,053	1,020,023	1,395,695	(375,672)	Y
Public Health	2,273,000	2,069,551	(203,449)	(117,896)	(85,553)	Y
Resources & Support	7,950,290	18,324,903	10,374,613	11,146,506	(771,893)	Y
Corporate	1,776,333	(16,494,121)	(18,270,454)	(13,846,359)	(4,424,095)	Y
Total	223,444,950	223,144,555	(300,395)	0	(300,395)	

Detail

ADULT SERVICES	Full year					RAGBY
	Budget	Outturn	Total Variation	Non Controllable Variation	Controllable Variation	
	£	£	£	£	£	
Total	71,895,780	78,153,101	6,257,321	1,465,727	4,791,594	R

Adult Business Support & Development	1,531,260	1,037,232	(494,028)	(73,223)	(420,795)	Y
Underspend due to one off external funding allocations being applied, along with one off savings on Client Property and Contract Savings.						
Contracts & Provider	7,051,250	8,719,077	1,667,827	2,079,109	(411,282)	Y
One off in year savings achieved in Day Services along with the delivery of 2015-16 savings early.						
Social Care Operations	54,466,370	59,827,009	5,360,639	(558,989)	5,919,628	R
Purchasing budgets faced considerable pressure throughout 2014/15. The year saw an additional pressure of £5.8m added as a result of new clients entering the system. 21% of the new pressure came as a result of capital reduction, 19% from Hospital Discharge, 11% from transition, 6% from carer breakdown as well as a number of other sources. The significant new pressure areas sit outside the scope of the New Operating Model. The overall pressure in purchasing has been offset by underspends elsewhere in the system generated through savings programme successes and effective management of existing purchasing commitments. A high level review of funding agreements between 13/14 and 14/15 shows an overall reduction in both the number of funding agreements entered into and their cost between the two years.						

Appendix 1

Service Area Outturn and Actions 2014/15

ADULT SERVICES	Full year					RAGBY
	Budget	Outturn	Total Variation	Non Controllable Variation	Controllable Variation	
	£	£	£	£	£	
Adult Services Management	2,924,420	2,389,394	(535,026)	(58,212)	(476,814)	Y
£0.454m of underspend as a result of early achievement of 2015-16 savings.						
Housing Health & Wellbeing	5,922,480	6,180,389	257,909	77,052	180,857	R
Overspend as a result of underachieved stretch savings target applied to 2014-15. Plans to achieve this saving in 2015-16 are in place and being worked through.						

CHILDREN'S SERVICES	Full year					RAGBY
	Budget	Outturn	Total Variation	Non Controllable Variation	Controllable Variation	
	£	£	£	£	£	
Total	55,464,517	55,986,068	521,551	(43,673)	565,224	A

Learning & Skills	27,719,247	28,115,135	395,888	507,305	(111,417)	Y
Unachieved savings in 2014/15 of £1.644m have been offset by a one off contributions from reserves of £1.100m, one off revenue savings, re-structuring of teams and spending freeze totalling £0.655m.						
Children's Safeguarding	27,745,270	27,870,933	125,663	(550,978)	676,641	R
Growth in 'Looked After children' numbers has resulted in an overall pressure of £1.100m within placements which is mainly reflected within external fostering as we move to reduce the number of children placed in residential care settings. This pressure has been partly offset by savings achieved through restructures, vacancies and a spending freeze of £0.170m and a one off allocation from reserves of £0.250m.						

Service Area Outturn and Actions 2014/15

COMMISSIONING	Full year					RAGBY
	Budget	Outturn	Total Variation	Non Controllable Variation	Controllable Variation	
	£	£	£	£	£	
Total	84,085,030	85,105,053	1,020,023	1,395,695	(375,672)	Y
Director of Commissioning	745,710	736,038	(9,672)	(8,830)	(842)	Y
Minor variations.						
Director of Commissioning Total	745,710	736,038	(9,672)	(8,830)	(842)	Y
Local Commissioning	346,790	322,249	(24,541)	(18,752)	(5,789)	Y
Minor variations.						
Community Action	883,520	871,014	(12,506)	58,049	(70,555)	Y
Vacancy management and significant efficiency savings, plus specific budget for redundancies not required this year.						
Local Commissioning Total	1,230,310	1,193,263	(37,047)	39,297	(76,344)	Y
Area Commissioner North – Positive Activities	1,079,030	1,069,960	(9,070)	2,499	(11,569)	Y
Minor variations						
Area Commissioner North – Libraries	4,121,300	3,640,009	(481,291)	(590,620)	109,329	R
Virtually all required 2014/15 savings were achieved in year, although approximately £0.050m of the required savings were achieved on a one-off basis through freezing IT and other supplies and services budgets. An improved position in Commissioning as a directorate allowed £0.100m to be transferred to reserves to fund self-service provision in 2015/16.						
Area Commissioner North – Markets	66,200	999,360	933,160	921,486	11,675	G
Minor variations.						
Area Commissioner North - Waste	26,804,840	26,611,387	(193,453)	(254,725)	61,272	G
All savings RAG rated red have been achieved this year on a one-off basis. The scale of in year-savings from transferring waste to waste treatment facilities rather than to landfill, including to the new facility at Battlefield (which is in its commissioning phase), has almost offset the in-year payment to Veolia for repayment of energy recovery facility planning appeal costs.						
Area Commissioner North – Shrewsbury BID	0	(10,300)	(10,300)	0	(10,300)	Y
Minor variations.						
Area Commissioner North	240,260	220,781	(19,479)	(8,951)	(10,528)	Y
Minor variations.						
Area Commissioner North Total	32,311,630	32,531,197	219,567	69,689	149,879	G

Service Area Outturn and Actions 2014/15

COMMISSIONING	Full year					RAGBY
	Budget	Outturn	Total Variation	Non Controllable Variation	Controllable Variation	
	£	£	£	£	£	
Area Commissioner South – Environmental Maintenance	26,443,250	28,892,747	2,449,497	1,249,503	1,199,994	R
Due to an improved position for Commissioning as a directorate overall, the decision was taken not to draw from the 'Severe Weather' reserve, leaving the balance intact for future years. This overspend is deliberately covered by underspends elsewhere in the Directorate.						
Area Commissioner South – Highways & Transport	5,117,970	5,200,746	82,776	(34,186)	116,961	R
Additional costs for 'Local Bus Subsidies' and 'Concessionary Fares' partially offset by additional 'Street Works income'.						
Area Commissioner South – Passenger Transport	778,300	774,653	(3,647)	(13,090)	9,443	G
Minor variations						
Area Commissioner South – Leisure	4,064,370	3,782,639	(281,731)	(11,105)	(270,626)	Y
The unachieved Shropshire Community Leisure Trust contract saving, plus the one-off payment to transfer a facility to an educational establishment during the year, have been offset by efficiency savings across the portfolio, including an improving position at the facilities operated in-house. There has also been a contribution from Public Health of over £0.200m towards sports development and provision of swimming facilities.						
Area Commissioner South	326,240	315,595	(10,645)	(12,021)	1,376	G
Minor variations.						
Area Commissioner South Total	36,730,130	38,966,379	2,236,249	1,179,101	1,057,148	R

Public Protection & Enforcement - Healthier People and Communities	1,416,520	1,232,113	(184,407)	(80,787)	(103,620)	Y
Significant underspends on salaries, through vacancy management and redesign in preparation for the service area transferring to Fulcrum.						
Public Protection & Enforcement - Healthier and Sustainable Environment	1,243,780	1,085,251	(158,529)	(84,497)	(74,032)	Y
Salary underspends and overachievement of penalty charge notice income have helped to offset reductions in income relating to private water supplies and pest control.						
Public Protection & Enforcement - Safer and Stronger Communities	(145,320)	(236,856)	(91,536)	(19,084)	(72,452)	Y
2014/15 has been a particularly good year for taxi licence income, which has achieved an improvement on budget of over £0.100m. This has been partially offset by a reduction in income relating to premises licences.						

Service Area Outturn and Actions 2014/15

COMMISSIONING	Full year					RAGBY
	Budget	Outturn	Total Variation	Non Controllable Variation	Controllable Variation	
	£	£	£	£	£	
Public Protection & Enforcement – Public Protection Management	1,077,890	1,056,139	(21,751)	(42,820)	21,069	G
£0.172m savings were applied to the management cost centre, and although the majority of savings have been made here, some of the savings have been made within Healthier People and Communities.						
Public Protection & Enforcement Total	3,592,870	3,136,647	(456,223)	(227,188)	(229,035)	Y

Business Growth & Prosperity - Arts	224,260	216,582	(7,678)	(724)	(6,954)	Y
Minor variations						
Business Growth & Prosperity - Enterprise & Business	964,630	1,034,274	69,644	129,914	(60,270)	Y
A number of deliberate savings in this area (essentially staffing and reduced expenditure on development items) to offset additional costs in 'Infrastructure and Growth' (please see below).						
Business Growth & Prosperity - Visitor Economy	1,876,510	1,504,658	(371,852)	(366,636)	(5,216)	Y
Minor variations.						
Business Growth & Prosperity - Outdoor Recreation	2,530,280	2,294,171	(236,109)	(147,098)	(89,011)	Y
There are a number of underspends within this this service, the majority being on staffing, essentially through vacant posts.						
Business Growth & Prosperity - Theatre Severn	599,040	516,640	(82,400)	37,936	(120,336)	Y
Theatre Severn continues to grow and develop, with the aim of increasing income and reducing overall net costs. Admissions income has increased significantly in 2014/15.						
Business Growth & Prosperity - Infrastructure & Growth	314,390	625,782	311,392	284,260	27,132	G
Income from lettings remains challenging, with some additional development expenditure. This is offset by staffing savings and savings in 'Enterprise and Business', as above.						
Business Growth & Prosperity - Development Management	2,486,540	1,877,574	(608,966)	413,436	(1,022,402)	Y
2014/15 was an exceptional year for receipt of income for planning applications, with income £1m greater than budgeted for.						
Business Growth & Prosperity - Management	478,730	471,849	(6,881)	(7,462)	581	G
Minor variations						
Business Growth & Prosperity Total	9,474,380	8,541,529	(932,851)	343,626	(1,276,478)	Y

Service Area Outturn and Actions 2014/15

PUBLIC HEALTH	Full year					RAGBY
	Budget	Outturn	Total Variation	Non Controllable Variation	Controllable Variation	
	£	£	£	£	£	
Total	2,273,000	2,069,551	(203,449)	(117,896)	(85,553)	Y

Public Health	2,273,000	2,069,551	(203,449)	(117,896)	(85,553)	Y
Underspend is on areas of Public Health not ring-fenced by the DoH Grant, but previous Council Services that have transferred into Public Health such as Coroners and Registrars.						

RESOURCES & SUPPORT	Full year					RAGBY
	Budget	Outturn	Total Variation	Non Controllable Variation	Controllable Variation	
	£	£	£	£	£	
Total	7,950,290	18,324,903	10,374,613	11,146,506	(771,893)	Y

Commercial Services	4,253,870	15,708,893	11,455,113	11,447,765	7,348	G
For Commercial Services (excluding Shire Services) the costs of dilapidations across premises in this financial year resulted in a one-off cost of £0.200m. A further overspend of £0.296m relates to property savings. These were identified as Red and Amber flagged savings targets, and can only be realised on disposal of assets, which is beyond our control and necessarily subject to market forces. Efficiencies have been identified in various areas within Commercial Services to offset these savings pressures in 2014/15 only.						
Customer Involvement	816,230	1,408,600	592,370	(58,582)	650,952	R
The year-end overspend has resulted from the budget pressures which were identified in year relating to the costs for software £0.270m and the delays in the rollout of Lync £0.200m. There was also a reduction in external income relating to the contract for services provided to ST&RH of £0.143m, and replacement of this income is currently being investigated. As forecast the Print Unit made a year end loss of £0.300m. There were unachievable savings targets of £0.139m across the Customers Service Centre and Face to Face, these have been offset by savings on staff restructures across the service and other teams in Benefit Options, Complaints/SLA's and Digital Services.						
Finance, Governance & Assurance	1,128,190	373,768	(754,422)	(184,959)	(569,463)	Y
Additional grants of £0.100m have been received in relation to new burdens which have been placed on the Local Authority by Central Government in relation to Revenues and Benefits administration. Funds above the value forecast have been collected in relation to the recovery of costs for Council Tax and Business rates an additional £0.187m has been recovered above the value which was forecast. Additional savings of £0.186m have been realised in Financial Management and Transaction Services across staffing, software and maintenance and printing costs.						

Appendix 1

Service Area Outturn and Actions 2014/15

RESOURCES & SUPPORT	Full year					RAGBY
	Budget	Outturn	Total Variation	Non Controllable Variation	Controllable Variation	
	£	£	£	£	£	
Human Resources & Development	134,280	28,918	(105,362)	(22,151)	(83,211)	Y
<p>A one-off budget pressure totalling £0.035m occurred resulting from two invoices paid to Teacher Pensions Association for Employer Pensions Contributions arrears with compound interest. The Payroll Team are seeking to mitigate the risk of future invoices by going through systems to ensure all teachers that should have been opted in have been dealt with correctly. Additional pressures resulted from reduced income totalling £0.012m from Occupational Health and first aid training courses, however this overspend was offset by in-year vacancy management savings in these teams. Additional unforeseen annual systems costs were also incurred. This pressure was more than offset by in-year vacancy management savings totalling £0.171m across Employment Services and HR Advice teams plus reduced spending on corporate training of £0.025m</p>						
Legal, Democratic & Strategy	617,720	(35,545)	(653,265)	(33,256)	(620,009)	Y
<p>There have been savings realised on Corporate Subscriptions of £0.060m, reduced printing and postage costs in Election Services of £0.050m, alongside additional income received of £0.055k for parish elections. Savings have also been achieved of £0.158m across member's services in relation to member allowances, and reduced costs for printing. Committee services had achieved savings of £0.114m from a combination of reducing staffing and printing costs.</p>						
Strategic Management Board	1,000,000	840,179	(159,821)	(2,311)	(157,510)	Y
<p>There have been savings on staffing in the PA team of £0.074m, additional income from external client's has been received of £0.030m, the balance of the underspend has occurred across various budget heading and is a result of the reduced spending on stationary, training, printing and related budgets.</p>						

CORPORATE	Full year					RAGBY
	Budget	Outturn	Total Variation	Non Controllable Variation	Controllable Variation	
	£	£	£	£	£	
Total	1,776,333	(16,494,121)	(18,270,454)	(13,846,359)	(4,424,095)	Y

Corporate Budgets	1,776,333	(16,494,121)	(18,270,454)	(13,846,359)	(4,424,095)	Y
<p>The Council's Medium Term Financial Plan took account of a number of assumptions in Council Tax Freeze Grant, Section 31 grants (relating to, for example small business rate relief) and Business Rate appeals provision. While the longer term implications of these elements remain uncertain (for example whether they will be rolled transparently into future RSG allocations) it was identified that £10.386m had been budgeted for, but was uncommitted in 2014/15.</p> <p>As a result, the underspend has been contributed towards earmarked reserves during the year end process. The balance of uncommitted balances within Corporate Budgets has been used as a one-off to offset a large proportion of the year-end pressures identified.</p>						

Housing Revenue Account 2014/15

Outturn (pre Audit)	Budget £	Outturn £	Variance Adverse/ (Favourable) £
Income			
Dwellings Rent	(16,959,450)	(17,197,625)	(238,175)
Garage Rent	(185,240)	(175,346)	9,894
Other Rent	(22,090)	(27,200)	(5,110)
Charges for Services	(216,660)	(329,303)	(112,643)
Total Income	(17,383,440)	(17,729,474)	(346,034)
Expenditure			
ALMO Management Fee	7,312,710	7,312,714	4
Supplies and Services	324,700	397,185	72,485
Capital Charges - Dwelling Depreciation	4,262,170	4,262,170	0
Capital Charges - Depreciation Other	69,810	43,030	(26,780)
Interest Paid	2,995,110	2,994,856	(254)
Repairs charged to revenue	533,560	417,706	(115,854)
Revenue Financing Capital Expenditure	1,650,000	1,650,000	0
Increase in Bad Debt Provision	310,000	(23,620)	(333,620)
Corporate & Democratic Core	181,180	184,815	3,635
Total Expenditure	17,639,240	17,238,856	(400,384)
Net Cost of Services	255,800	(490,618)	(746,418)
Interest on Balances	(23,000)	(39,267)	(16,267)
Net Operating Expenditure	232,800	(529,885)	(762,685)
Net Cost of Service	232,800	(529,885)	(762,685)
HRA Reserve			
B/fwd 1 April	2,546,067	2,546,067	
Surplus/(Deficit) for year	(232,800)	529,885	
Carried Forward 31 March	2,313,267	3,075,952	

Earmarked Reserves for the HRA

	Purpose of Balance	Balance Brought Forward (£'000)	Expenditure in 2014/15 (£'000)	Income in 2014/15 (£'000)	Balance Carried Forward (£'000)
HRA Earmarked Reserves					
Major Repairs Reserve	Required to meet the costs of major repairs to be undertaken on the Council's housing stock.	3,722	(6,392)	4,305	1,635
		3,722	(6,392)	4,305	1,635

Appendix 3**Amendments to Original Budget 2014/15**

	Total £'000	Adult Services £'000	Children's Services £'000	Commissi oning £'000	Public Health £'000	Resources & Support £'000	Corporate £000
Original Budget as agreed by Council	223,445	64,555	55,902	90,356	1,470	5,127	6,035
<u>Quarter 1</u>							
Professional Development Unit transferred from Children's Services to Adult Services	0	130	(130)	0	0	0	0
Grant funding re shortfall in ESG	0	0	416	0	0	0	(416)
Funding to Develop University Plans	0	0	0	0	0	1,000	(1,000)
Cost of dual running of the WAN contract	0	0	0	0	0	490	(490)
Financial pressures within the Property Services Design Team	0	0	0	0	0	428	(428)
<u>Quarter 2</u>							
Minor budget variations	0	0	(3)	(1)		4	
Structure change	0	0		(22)		22	
Sustainability transfer	0	0		(163)		163	
Restructure of IT budgets held corporately	0	0				337	(337)
Transfer of corporate funding for redesign projects in Resources & Support:							
- Mail room	0	0	0	0	0	300	(300)
- Printing	0	0	0	0	0	200	(200)
- EDRMS	0	0	0	0	0	412	(412)
- CSC	0	0	0	0	0	250	(250)
- Mobile working	0	0	0	0	0	280	(280)
- Revs & Bens	0	0	0	0	0	238	(238)
- Business Design	0	0	0	0	0	120	(120)
<u>Quarter 3</u>							
Structure change – Housing Health	0	5,746	0	(5,746)	0	0	0
Teme Neighbourhood Life	0	0	0	5	(5)	0	0
Structure change – Community Safety	0	0	0	(288)	288	0	0
Housing staff transfer	0	148	0	(148)	0	0	0
Benefits fraud transfer	0	0	0	(133)	0	133	0
Blue Badge transfer	0	(114)	0	114	0	0	0
Structure change – Lifelong Learn	0	818	(818)	0	0	0	0
Structure change – CIS SSA	0	0	178	0	0	(178)	0
<u>Outturn</u>							
Internal Market	0	613	408	120	279	(1,292)	(128)
Structure change – Public Health	0	0	(150)	0	242	(92)	0
Structure change - Other	0	0	11	(9)	(1)	8	(9)
ESG Grant	0	0	(349)	0	0	0	349
Revised Budget	223,445	71,896	55,465	84,085	2,273	7,950	1,776

Reserves and Provision 2014/15

	Purpose of Balance	Balance Brought Forward (£'000)	Expenditure in 2014/15 (£'000)	Income in 2014/15 (£'000)	Balance Carried Forward (£'000)
Reserves					
Sums set aside for major schemes, such as capital developments, or to fund major reorganisations					
Redundancy	Required to meet one-off costs arising from approved staffing reductions, allowing the full approved savings in salaries or wages to reach the revenue account.	13,201	(2,671)	73	10,603
Revenue Commitments for Future Capital Expenditure	Comprises of underspends against budgeted revenue contributions available for capital schemes. The underspends have arisen due to slippage in capital schemes or because other funding streams were utilised during the year so as to maximise time limited grants.	545	(336)	818	1,027
Transformation	Required to fund invest to save projects in order to deliver the service transformation programme.	3,315	(128)	2,866	6,053
University	Required to meet the revenue costs arising from the setup of the university project and student accommodation development.	0	0	1,810	1,810
		17,061	(3,135)	5,567	19,493
Insurance Reserves					
Fire Liability	Required to meet the cost of excesses on all council properties.	1,887	0	248	2,135
Motor Insurance	An internally operated self-insurance reserve to meet costs not covered by the Council's Motor Insurance Policy.	791	0	76	867
		2,678	0	324	3,002
Reserves of trading and business units					
Shire Catering and Cleaning Efficiency	Built up from trading surpluses to invest in new initiatives, to meet exceptional unbudgeted costs or cover any trading deficits.	131	0	169	300
		131	0	169	300
Reserves retained for service departmental use					
Care Act Reserve	Required to fund the costs of implementing the Care Act requirements within the Council. This will be committed to the costs of one off posts required to implement the changes and training costs for staff within Adult Services.	0	0	1,316	1,316
Economic Development Workshops Major Maintenance	Established to meet the costs of major maintenance of Economic Development Workshops.	391	(45)	39	385
Highways Development & Innovation Fund	Set aside funds for pump priming the Development and Innovation programme agreed within the Ringway Contract.	0	0	437	437
Major Planning Inquiries	Required to meet the one-off costs of major planning inquiries, and is a corporate reserve.	562	0	30	592

Reserves and Provision 2014/15

	Purpose of Balance	Balance Brought Forward (£'000)	Expenditure in 2014/15 (£'000)	Income in 2014/15 (£'000)	Balance Carried Forward (£'000)
New Homes Bonus	Established from unapplied New Homes Bonus Grant balances.	3,426	(4,508)	5,758	4,676
PFI Buildings Equipment Replacement	Established in 2007/08 to fund replacement equipment in PFI buildings. This relates to items of equipment not covered by the PFI contract, that the council are responsible for maintaining.	4	0	0	4
Planning Reserve	Set aside funds for investment in planning application processes.	0	0	1,285	1,285
Public Health Reserve	This reserve includes balances committed to specific public health projects. The increase in the reserve in 2014/15 relates to the delay in a number of programmes progressing until the transfer of Help2Change to ip&e was completed. These programmes will now go ahead in 2015/16.	1,230	(120)	1,602	2,712
Repairs & Maintenance Reserve	Set aside for known repairs and maintenance required to Council owned properties.	0	0	1,350	1,350
Resources Efficiency	Established for investment in new developments, particularly information technology, that service area would not be expected to meet from their internal service level agreements for support services.	601	(189)	4,993	5,405
Revenue Commitments from Unringfenced Revenue Grants	Established from unapplied unringfenced Grant balances. Commitments have been made against these balances in 2015/16.	2,885	(157)	1,336	4,064
Severe Weather	Required to meet unbudgeted costs arising from the damage caused by severe weather. The policy of the Council is to budget for an average year's expenditure in the revenue accounts and transfer any underspend to the reserve or fund any overspend from the reserve.	2,839	0	0	2,839
Shropshire Waste Partnership (Smoothing)	The PFI smoothing reserve reflects the budgeted contributions in the early years of the Waste PFI contract that will be used to smooth the step up in the Unitary This increase has now been included within the 2014/15 budget strategy to cover the annual increase therefore the bulk of this reserve has been released in 2013/14.	623	(21)	0	602
Theatre Severn R&M	Established from underspends within culture and leisure, the reserve is earmarked towards future capital and revenue expenditure on repairs, maintenance and replacement of essential equipment at the Theatre.	29	0	0	29

Reserves and Provision 2014/15

	Purpose of Balance	Balance Brought Forward (£'000)	Expenditure in 2014/15 (£'000)	Income in 2014/15 (£'000)	Balance Carried Forward (£'000)
TMO Vehicle Replacement	Set up to meet the costs of replacement vehicles by the Integrated Transport Unit.	1,040	(434)	37	643
		13,630	(5,474)	18,183	26,339
School Balances					
Balances held by schools under a scheme of delegation	Schools' balances have to be ringfenced for use by schools and schools have the right to spend those balances at their discretion.	5,522	(5,491)	3,926	3,957
Education – Staff Sickness Insurance	Schools' self help insurance for staff sickness with premiums met from delegated budgets.	89	0	73	162
Education – Theft Insurance	Schools' self help insurance scheme to cover equipment damage and losses.	86	0	10	96
Schools Building Maintenance Insurance	The schools building maintenance insurance scheme is a service provided by Property Services for schools. In return for an annual sum all structural repairs and maintenance responsibilities previously identified as the "authority's responsibility" are carried out at no additional charge to the school.	1,443	(21)	255	1,677
		7,140	(5,512)	4,264	5,892
Total Reserves		40,640	(14,121)	28,507	55,026
Provisions					
Short Term Provisions					
Accumulated Absences Account	Provision to cover potential future payments of employee benefits not taken as at the end of the year. This is required under IFRS accounting regulations.	3,217	(3,217)	3,211	3,211
Redundancy Provision	Provides for redundancy costs that the Council is committed to from issuing redundancy notices prior to 31 st March 2015.	932	(777)	68	223
CRC Provision	This provides for the council's liability in relation to the Carbon Reduction Commitment for carbon emissions from the Council's properties.	320	(320)	0	0
Other Provisions	Includes a number of small provisions including Ringway materials and a leisure liability.	23	0	129	152
		4,492	(4,314)	3,408	3,586
Long Term Provisions					
Liability Insurance	Provision to meet the estimated actuarial valuation of claims for public liability and employers' liability	3,509	(25)	111	3,595
NDR Appeals Provision	Represents the Council's share of the provision held for successful appeals against business rates.	787	(5,119)	8,122	3,790

Reserves and Provision 2014/15

	Purpose of Balance	Balance Brought Forward (£'000)	Expenditure in 2014/15 (£'000)	Income in 2014/15 (£'000)	Balance Carried Forward (£'000)
Tenancy Deposit Clawbacks	This represents deposits held for the economic development workshops that may be repaid at some point in the future.	70	(1)	52	121
Other Provisions	Includes a number of small provisions including S106 Accrued Interest and Profit share agreements.	535	(143)	0	392
		4,901	(5,288)	8,285	7,898
Total Provisions		9,393	(9,602)	11,693	11,484
Bad Debt Provisions					
General Fund Bad Debts	Held for potential write offs of debtor balances for General Fund Services including Housing Benefits.	4,269	(837)	879	4,311
HRA Bad Debts	Held for potential write offs of debtor balances for Housing Revenue Account rents and other debtor balances.	462	(145)	0	317
		4,731	(982)	879	4,628
Total Provisions including Bad Debt Provisions		14,124	(10,584)	12,572	16,112

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<u>Committee and Date</u>	<u>Item</u>
Cabinet 10 June 2015	
Audit Committee 25 June 2015	<u>Public</u>
Council 23 July 2015	

CAPITAL OUTTURN REPORT – 2014/15

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1. Summary

1.1 The purpose of this report is to inform Members of the final outturn position for the Council's 2014/15 capital programme and the current position regarding the 2015/16 to 2017/18 capital programme taking into account the slippage following the closure of the 2014/15 programme, and any budget increases/decreases for 2014/15 and future years. The report reflects:

- § The re-profiled 2014/15 budget of £66.4m and the future years capital programme budget;
- § The outturn capital expenditure of £54.2m, representing 81.7% of the re-profiled budget for 2014/15;
- § An underspend of £12.2m, of which £12.1m has been slipped to 2015/16 and £100k of which is no longer required/available to the capital programme; and
- § The current funding of the programme and its future affordability.

2. Recommendations

Members are asked to:

- A. Approve budget variations of £209,067 to the 2014/15 capital programme, detailed in Appendix 1/Table 1 and the re-profiled 2014/15 capital budget of £66.4m.
- B. Approve the re-profiled capital budgets of £66.6m for 2015/16, including slippage of £12.1m from 2014/15, £34.6m for 2016/17 and £27.5m for 2017/18 as detailed in Appendix 1/Table 4.
- C. Accept the outturn expenditure set out in appendix 1 of £54.2m, representing 81.7% of the revised capital budget for 2014/15.

- D. Approve retaining a balance of capital receipts set aside of £14.1m as at 31st March 2015 to generate a Minimum Revenue Provision saving of £564,000 in 2015/16.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Risk assessments are undertaken as part of the evaluation of all capital bids.
- 3.2 Capital receipt levels and the timing of receipts are dependant on planning approvals and prevailing market conditions.
- 3.3 Environmental appraisals are carried out for individual schemes as appropriate.
- 3.4 Community consultations are carried out for individual schemes as appropriate.

4. Financial Implications

- 4.1 This report considers the capital spend within the capital programme for 2014/15 and considers the impact that slippage within the programme will have on the financing of the capital programme in the future, including any future revenue implications.

5. Background

- 5.1 The capital programme for 2014/15 and future years, was updated as part of the Business Plan and Financial Strategy 2014/15 to 2016/17 report, approved by Council 27 February 2014. This included updated allocations of capital grants and a review of and delivery schedule for schemes.
- 5.2 The Council's capital programme is subject to regular review and an updated programme was included in the Business Plan and Financial Strategy 2015/16 to 2016/17, approved by Council on 26 February 2015.

6. Original and latest proposed capital programme for 2014/15

- 6.1 The capital budget for 2014/15 is subject to change, the largest element being slippage from 2014/15 and re-profiling into future years. In Quarter 4 there has been a net budget decrease of £209k, compared to the position reported at Quarter 3 2014/15. Table 1 summarises the overall movement, between that already approved, and changes for Quarter 4 that require approval.

Table 1: Revised Capital Programme Quarter 4 2014/15

Service Area	Agreed Capital Programme - Council 27/02/14	Slippage and budget changes approved to Quarter 3 14/15	Quarter 4 budget changes to be approved	Revised 2014/15 Capital Programme Quarter 4
General Fund				
Commissioning	33,394,659	286,971	(128,073)	33,553,557
Adult Services	1,419,791	2,882,884	-	4,302,675
Children's Services	13,173,406	(2,212,678)	(11,679)	10,949,049
Resources & Support	268,000	6,987,219	(69,315)	7,185,904
Total General Fund	48,255,856	7,944,396	(209,067)	55,991,185
Housing Revenue Account	10,090,890	351,092	-	10,441,982
Total Approved Budget	58,346,746	8,295,488	(209,067)	66,433,167

6.2 Full details of all budget changes are provided in Appendix One to this report, there have been no significant changes in Quarter 4.

7. Current Capital Programme and Forecast Outturn

7.1 The capital programme is reviewed on a regular basis to re-profile the budget to reflect the multi-year nature of capital schemes, whereby spend may slip into later years. However, it is possible that a level of underspend or overspend may be experienced against the revised capital budget at outturn. Outturn projections are incorporated into the capital monitor to enhance the monitoring information provided and allow the early identification where schemes are deviating from budget. Table 2 summarises the outturn position for 2014/15.

Table 2: Capital Programme Outturn Position by Service area 2014/15

Service Area	Revised Capital Programme – Outturn 2014/15	Actual Expenditure 31/03/15	Variance	Spend to Budget %
General Fund				
Commissioning	33,553,557	27,225,632	6,327,925	81.1%
Adult Services	4,302,675	3,292,288	1,010,387	76.5%
Children's Services	10,949,049	8,561,473	2,387,576	78.2%
Resources & Support	7,185,904	6,061,955	1,123,949	84.4%
Total General Fund	55,991,185	45,141,347	10,849,838	80.6%
Housing Revenue Account	10,441,982	9,111,534	1,330,448	87.3%
Total	66,433,167	54,252,882	12,180,285	81.7%

7.2 Total capital expenditure for 2014/15 was £54.2m, which equated to 81.7% of the re-profiled capital programme of £66.4m. £12.1m of the £12.2m underspend has been slipped to 2015/16. The balance has been released from the capital programme as it is no longer required, This mainly relates to a £100,000 revenue contribution to a Highways scheme, that can be released

back to revenue following an underspend in other areas of the Highways capital programme. Full details of expenditure variances at scheme level are in Appendix 1. A summary of significant variances by service area are provided below:

- 7.3 **Commissioning** – Total underspend against the Commissioning capital programme was £6.3m. The most significant area of underspend was £3.2m against Highways & Transport, this was due to the failure to deliver schemes scheduled for 2014/15 as a result of ongoing issues with delivery of capital schemes with the Councils Highways contractor and delays in delivery of some tendered work caused by a national shortage of materials. The full underspend has been slipped to 2015/16 and a programme is being put in place to deliver these works in early 2015/16, so it does not impact on delivery of the 2015/16 programme. The remaining balance of monies carried forward, have been allocated to priority schemes in 2015/16.

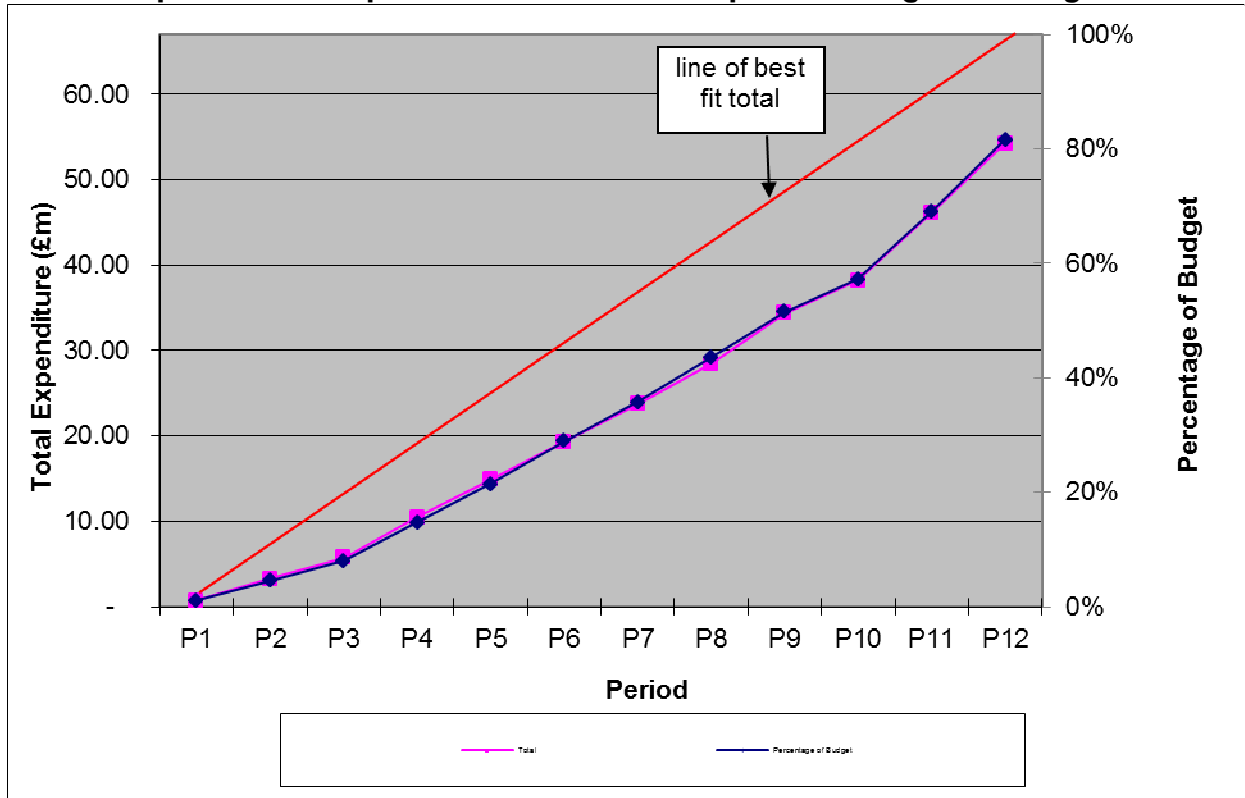
The other significant area of underspend was £2.6m against schemes under Business Growth & Prosperity. This included £990k on Broadband from delays in delivery by BT, £434k on Affordable Housing schemes from delays in grants being drawn down by developers, £250k on Small Business Loans due to lower take up of loans and £462k on Visitor Economy schemes from delays in agreeing final scheme accounts.

- 7.4 **Adult Services** – The total underspend against Adult Services was £1m; this was across all schemes in the programme and despite significant re-profiling earlier in the year.
- 7.5 **Children's Services** – The total underspend against the Children's Services capital programme was £2.4m. This was spread through-out the different areas of the programme and despite significant re-profiling earlier in the year. The underspend mainly resulted from the failure to deliver a number of schemes commissioned later in the year.
- 7.6 **Resources & Support** – The underspend against the Resources & Support capital programme was £1.1m, the main area of this was on the Gypsy Site schemes, where contractor delays pushed completion into 2015/16.
- 7.7 **Housing Revenue Account** – The Housing Revenue Account underspent by £1.3m, this was across the various elements of the programme.

8. Actual Expenditure to Date – *is the programme being delivered to plan?*

- 8.1 The outturn capital expenditure is £54.2m, which represents 81.7% of the revised outturn capital budget. Graph One below shows actual expenditure by Period and actual expenditure on the total capital programme by Period as a percentage of the total budget.

Graph 1: Total Expenditure and Actual expenditure against budget



9. Financing of the capital programme

9.1 Appendix 1 provides a full summary of the financing of the 2014/15 capital programme. Table 3 summarises the financing sources and changes made to Quarter 3 and to be approved in Quarter 4.

Table 3: Revised Capital Programme Financing

Financing	Agreed Capital Programme - Council 28/02/13	Slippage and budget changes approved to Period 11 13/14	Period 12 budget changes to be approved	Revised 2013/14 Capital Programme Period 12
Self-Financed Prudential Borrowing*	261,142	4,320,079	-	4,581,221
Government Grants	34,408,091	1,869,891	(71,461)	36,206,521
Other Grants	442,303	1,548,796	(37,346)	1,953,753
Other Contributions	382,512	530,444	(5,586)	907,370
Revenue Contributions to Capital	2,805,294	1,637,414	111,571	4,554,279
Major Repairs Allowance	6,293,314	1,163,212	-	7,456,526
Corporate Resources (Capital Receipts/ Prudential Borrowing)	13,754,090	(2,774,348)	(206,245)	10,773,497
Total Confirmed Funding	58,346,746	8,295,488	(209,067)	66,433,167

* Borrowing for which on-going revenue costs are financed by the Service, usually from revenue savings generated from the schemes.

10. Projected Longer Term Capital Programme to aid Medium Term Financial Plan

10.1 The updated capital programme for 2015/16 to 2017/18 is summarised by year and financing in Table 4 below (2015/16 includes £12.1m slippage from 2014/15):

Table 4: Capital Programme 2015/16 to 2017/18

Service Area	2015/16	2016/17	2017/18
General Fund			
Commissioning	36,743,329	25,345,216	16,293,000
Adult Services	4,971,146	110,000	-
Children's Services	12,418,468	5,228,259	7,666,783
Resources & Support	4,545,752	60,430	-
Total General Fund	58,678,695	30,743,905	23,959,783
Housing Revenue Account	7,911,817	3,843,000	3,550,000
Total Approved Budget	66,590,512	34,586,905	27,509,783
Financing			
Self-Financed Prudential Borrowing*	3,111,929	60,430	-
Government Grants	33,353,479	22,010,259	21,509,999
Other Grants	639,634	-	-
Other Contributions	97,678	-	-
Revenue Contributions to Capital	3,034,127	-	-
Major Repairs Allowance	5,777,757	3,600,000	3,550,000
Corporate Resources (Capital Receipts/ Prudential Borrowing)	20,575,908	8,916,216	2,449,784
Total Confirmed Funding	66,590,512	34,586,905	27,509,783

* Borrowing for which on-going revenue costs are financed by the Service, usually from revenue savings generated from the schemes.

10.2 Full details of all budget changes are provided in Appendix One to this report. Significant changes are:

Budget Increases

- § Department for Education have confirmed grant allocations for 2015/16 to 2017/18. The Council will receive Condition funding of £3.4m per annum to 2017/18, with the final 2 years allocations indicative, subject to changes as a result of schools moving responsible body, opening or closing. £760k in DFC funding for schools in 2015/16 and Basic Need funding of £1.8m in 2017/18, in addition to the similar amounts previously confirmed for the previous 2 years.
- § Learning & Skills are to capitalise £500k in ring-fenced DSG revenue grant to finance a programme of works required in school kitchens following the introduction of Universal Infant Free School Meals.
- § The budget for the refurbishment of Mardol house to student accommodation has increased by £500k. £200k is financed from borrowing, utilising the full £7.5m borrowing approved by Council. A further £300k has been added to the scheme financed by a revenue contribution.
- § £200k of New Homes Bonus monies have been allocated to the Whitchurch Area Empty Property Incentive Grant as approved as part of the allocation of New Homes Bonus monies.
- § Capital receipts of £67k have been added to the programme for installation of Solar PV at Shawbury St Marys Primary School.

Budget Re-profiling

- § £2.45m in funding allocated for Basic Need provision re-profiled from 2015/16 to 2017/18, based on projected profile of additional school spaces requirement.

11. Capital Receipts Position

- 11.1 The current capital programme is reliant on the Council generating capital receipts to finance the capital programme. There is a high level of risk in these projections as they are subject to changes in property and land values, the actions of potential buyers and being granted planning permission on sites. Table 5 below, summarises the current allocated and projected capital receipt position across 2014/15 to 2017/18. A RAG analysis has been included for capital receipts projected, based on the current likelihood of generating them by the end of each financial year. Those marked as green are where they are highly likely to be completed by the end of the financial year, amber are where they are achievable, but challenging and thus there is a risk of slippage and red are highly unlikely to complete in year and thus there is a high risk of slippage. However, no receipts are guaranteed to complete in this financial year as there may be delays between exchanging contracts and completing.

Table 5: Projected capital receipts position

Detail	2014/15 £	2015/16 £	2016/17 £	2017/18 £
Corporate Resources Applied to finance Capital Programme	3,510,538			
Capital Receipts applied direct to CAA	64,403			
Corporate Resources Allocated in Capital Programme		20,575,908	8,916,216	2,449,784
To be allocated from Ring Fenced Receipts	-	2,575,778	1,145,410	1,762,500
Total Commitments	3,574,941	21,661,908	13,068,589	2,449,784
Capital Receipts in hand/projected:				
Brought Forward in hand	13,245,785	14,106,162		
Generated 2014/15	4,435,318			
Future Years - 'Green'	-	3,372,843	3,000,000	800,000
Total in hand/projected	17,681,103	17,479,005	3,000,000	800,000
Surplus to be carried forward to 2014/15	(14,106,162)			
Shortfall / (Surplus) to be financed from Prudential Borrowing		4,182,903	10,068,589	1,649,784
Further Assets Being Considered for Disposal		9,788,245	4,245,000	4,400,000

- 11.2 Capital receipts of £4.4m have been generated in 2014/15. As previously reported, following the re-profiling in the capital programme, sufficient receipts had been generated to finance this year's capital programme without any corporate prudential borrowing.
- 11.3 Following the outturn underspend position for the capital programme for 2014/15 and the Council policy of applying un-ringfenced capital grants in place of capital receipts where they are not required in full due to scheme underspends, the Council has £14.1m in capital receipts in hand at 31/03/15. These will be set-aside, enabling the Council to achieve an additional MRP saving of £564,000 in 2015/16.

- 11.4 The above capital receipt projections for 2015/16 to 2017/18 are based on current scheduled disposals that are profiled for each year. Those listed as Green are where it is rated as 'highly likely' that the disposals will be completed in year. In addition to these there are a number of further disposals that have been identified for potential disposal in future years. These receipts hold significant risk against delivery and therefore until the plans for disposal against these assets are formally agreed, these will not be included when considering the programmes affordability. On the basis that the current programme is unaffordable, further work is required on the deliverability of the list of assets being considered for disposal.
- 11.5 If the Council cannot generate the required level of capital receipts, the Council will need to further reduce or re-profile the capital programme or undertake prudential borrowing, which will incur revenue costs that are not budgeted in the revenue financial strategy.

12. Unsupported borrowing and the revenue consequences

- 12.1 The Council can choose what level of unsupported (prudential) borrowing to undertake to fund the capital programme, based on affordability under the prudential code. There is an associated revenue cost to fund the cost of the unsupported borrowing. This consists of the Minimum Revenue Provision (MRP) charge for the repayment of the principal amount, based on the asset life method and the interest charge associated with the borrowing. The current PWLB borrowing rate over 25 years is projected to be around 4% for 2015/16. At this rate, £1m of Prudential Borrowing would result in additional revenue financing costs of £0.08m (MRP and interest cost) in the following year, reducing by £1,600 each year over the 25 year period. The Council is working towards generating sufficient capital receipts (see section 11); to avoid any unsupported borrowing requirement at lower level of borrowing could also be sustained through internal borrowing against Council balances, removing the need for any new external borrowing.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Council Business Plan and Financial Strategy 2014 to 2017 – Council 27 February 2014

Capital Monitoring Report – Period 10 2013/14 – Cabinet 12 March 2014

Capital Monitoring Report – Period 11 2013/14 – Cabinet 09 April 2014

Capital Outturn Report – 2013/14 – Council 17 July 2014

Capital Monitor Report – Quarter 1 – Cabinet 30 July 2014

Capital Monitor Report – Quarter 2 – Cabinet 15 October 2014

Capital Monitor Report – Quarter 3 – Cabinet 11 February 2015

Business Plan and Financial Strategy 2015/16 to 2016/17 – Council 26 February 2015

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council.

Cabinet 10 June 2015, Audit Committee 25 June 2015, Council 23 July 2015: Capital Outturn – 2013/14

Portfolio holders

Local Member
All

Appendices

1. Capital Budget and Expenditure 2014/15

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Shropshire Council - Capital Programme 2014/15 - 2017/18**Capital Programme Summary - Period 12**

Scheme Description	Revised Budget Q3 £	Budget Virements Q4 £	Budget Inc/Dec Q4 £	Reprofile to/from future years Q4 £	Revised Budget Q4 14/15 £	Actual Spend 31/03/15	Spend to Budget Variance £	% Budget Spend	Slipped to 2015/16 £	No Longer Required / available £	2015/16 Revised Budget £	2016/17 Revised Budget £	2017/18 Revised Budget £
General Fund													
Commissioning	33,681,630	-	(128,073)	-	33,553,557	27,225,632	6,327,925	81.1%	6,227,925	100,000	36,743,329	25,345,216	16,293,000
Adult Services	4,302,675	-	-	-	4,302,675	3,292,288	1,010,387	76.5%	1,010,386	1	4,971,146	110,000	-
Children's Services	10,960,728	-	(11,679)	-	10,949,049	8,561,473	2,387,576	78.2%	2,387,574	2	12,418,468	5,228,259	7,666,783
Resources & Support	7,255,219	-	(69,315)	-	7,185,904	6,061,955	1,123,949	84.4%	1,123,048	901	4,545,752	60,430	-
Total General Fund	56,200,252	-	(209,067)	-	55,991,185	45,141,347	10,849,838	80.6%	10,748,934	100,903	58,678,695	30,743,905	23,959,783
Housing Revenue Account	10,441,982	-	-	-	10,441,982	9,111,534	1,330,448	87.3%	1,330,447	1	7,911,817	3,843,000	3,550,000
Total Approved Budget	66,642,234	-	(209,067)	-	66,433,167	54,252,882	12,180,285	81.7%	12,079,381	100,904	66,590,512	34,586,905	27,509,783
Approved Self-Financing Borrowing Schemes, not included in main programme pending development of schemes													
Resources & Support	3,791,457	-	-	-	3,791,457						-	-	-
	3,791,457	-	-	-	3,791,457						-	-	-

Scheme Description	Code	Project Manager	Total Approved Scheme Budget £	Previous Years Spend £	Revised Budget Q3 £	Budget Virements Q4 £	Budget Inc/Dec Q4 £	Reprofile to/from future years Q4 £	Revised Budget Q4 £	Actual Spend 31/03/15 £	Spend to Budget Variance £	Slipped to 2015/16 £	No Longer required / available £	RAG Status Scheme on Budget	RAG Status Scheme Progress	2015/16 Revised Budget £	2016/17 Revised Budget £	2017/18 Revised Budget £	
Pedestrian & Cycle Facilities																			
<i>Central</i>																			
ITP Central - Castle Street Pedestrian Crossing, Shrewsbury	KTC01	V Merrill			878	-	-	-	878	878	-	-	-	Green	Green	-	-	-	
ITP Central - Claremont Bank Pedestrian Crossing Bank, Shrewsbury	KTC02	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	-	-	-	
<i>North</i>																			
ITP North - Wem Mill St/Drawell Lane Pedestrian Crossing, Wem	KTC03	V Merrill			35,000	-	-	-	35,000	17,747	17,253	56	17,197	Green	Green	10,056	-	-	
ITP North - Woore, Newcastle Road Footway Improvement	KTC04	V Merrill			5,000	3,009	-	-	8,009	8,009	0	-	0	Green	Green	37,995	-	-	
ITP North - B5069 Rhyn Park St Martins Crossing	KTC05	V Merrill			150,000	(31,057)	-	-	118,943	118,943	0	-	0	Green	Green	20,000	-	-	
ITP North - B5067 Baschurch Pedestrian Crossing	KTC06	V Merrill			6,000	1,950	-	-	7,950	3,989	3,961	-	3,961	Green	Green	45,307	-	-	
ITP North - A53 Shawbury Footway Link	KTC07	V Merrill			5,000	1,008	-	-	6,008	6,008	-	-	-	Green	Green	5,313	-	-	
ITP North- Trefonen Pedestrian Crossing	KTC08	V Merrill			1,500	(1,500)	-	-	-	-	-	-	-	Green	Green	5,000	-	-	
ITP North - Oswestry branch line cycle route (aka Cambrian Railw	KST11	V Merrill			177,000	-	-	-	177,000	39,151	137,849	-	137,849	Green	Green	140,629	-	-	
<i>South</i>																			
ITP South - B4555 Bridgnorth Road Highley	KTC09	V Merrill			6,000	-	-	-	6,000	48	5,952	-	5,952	Green	Green	25,000	-	-	
ITP South - A4117 Clew Hill Pedestrian Crossing	KTC10	V Merrill			10,000	-	-	-	10,000	6,288	3,712	-	3,712	Green	Green	47,282	-	-	
ITP South - B4363 Hollybush Road/Underhill Street Pedestrian Cr	KTC11	V Merrill			3,000	-	-	-	3,000	2,641	359	-	359	Green	Green	21,475	-	-	
ITP South - Broseley Road Bridgnorth Road Pedestrian Improvem	KTC12	V Merrill			31,007	-	-	-	31,007	19,608	11,399	-	11,399	Green	Green	1,585	-	-	
ITP South - B4373 Wenlock Road & Westgate Crossing, Bridgnor	KTC13	V Merrill			95,000	(27,061)	-	-	67,939	15,611	52,328	52,328	0	Green	Green	60,313	-	-	
ITP South - Station Road, Albrighton Pedestrian Facilities	KTC14	V Merrill			6,000	-	-	-	6,000	3,742	2,258	-	2,258	Green	Green	58,816	-	-	
ITP South - B4379 Sherifhales Pedestrian Improvements	KTC15	V Merrill			3,858	-	-	-	3,858	3,518	340	-	340	Green	Green	37,396	-	-	
ITP South - A464 Park Street Shifnal Pedestrian Crossing	KTC16	V Merrill			3,472	-	-	-	3,472	3,341	131	-	131	Green	Green	74,517	-	-	
ITP South - B4386 Worthen Footway Extension	KTC17	V Merrill			5,000	3,201	-	-	8,201	5,858	2,343	-	2,343	Green	Green	-	-	-	
ITP South - B4376 Barrow Pedestrian Safety	KTC18	V Merrill			15,000	(2,932)	-	-	12,068	6,266	5,802	5,802	0	Green	Green	8,467	-	-	
ITP South - High Street Cleobury Zebra Crossing Enhancement	KTC19	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	-	-	-	
ITP South - Innage Lane to Stanley Lane, Bridgnorth, Junction Im	KTC20	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	-	-	-	
Total					558,716	(63,382)			505,333	261,646	243,687	58,186	185,501			739,161			
Signal Enhancements																			
<i>Central</i>																			
ITP Central - Whitchurch Road (Morrison's) Junction Improve	KTS01	V Merrill			20,000	(14,260)	-	-	5,740	5,740	0	-	0	Green	Green	-	-	-	
ITP Central - Abbey Foregate/Monkmoor traffic signals	KTS02	V Merrill			100,000	37,667	-	-	137,667	137,667	0	-	0	Green	Green	15,000	-	-	
ITP Central - Bellstone/Barker Street crossing Refurbishment	KTS03	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	-	-	-	
ITP Central - Coleham Gyratory	KTS04	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	-	-	-	
<i>North</i>																			
ITP North - A53 Shrewsbury road/Wem road signal Refurbishmen	KTS05	V Merrill			20,000	-	-	-	20,000	-	20,000	13,353	6,647	Green	Green	28,353	-	-	
ITP North - B5395 Whitchurch 5 ways junction improvement	KTS06	V Merrill			353,757	56,326	-	-	410,083	406,962	3,121	3,121	-	Green	Green	28,121	-	-	
<i>South</i>																			
ITP South - A41 Cosford junction signal Refurbishment	KTS07	V Merrill			415,000	35,000	-	-	450,000	447,821	2,179	-	2,179	Green	Green	22,000	-	-	
Total					908,767	114,733			1,023,490	998,190	25,300	16,474	8,826			93,474			
Safety/Speed Reductions																			
<i>Central</i>																			
ITP Central - A488 HGV Advance Warning signs	KTR01	V Merrill			71,143	-	-	-	71,143	71,143	0	-	0	Green	Green	-	-	-	
ITP Central - Shrewsbury Town Centre 20mph Extension	KTR02	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	-	-	-	
ITP Central - Lancaster Road Speed Management	KTR03	V Merrill			6,000	(1,586)	-	-	4,414	-	4,414	4,414	-	Green	Green	4,414	-	-	
<i>North</i>																			
ITP North - A49 Prees Green Signage	KTR04	V Merrill			8,000	(6,000)	-	-	2,000	1,487	513	-	513	Green	Green	-	-	-	
ITP North - A525 Broughall crossroads widening	KTR05	V Merrill			5,000	(3,579)	-	-	1,421	1,421	0	-	0	Green	Green	30,000	-	-	
ITP North - B5069 Moors Bank St Martins speed reduction	KTR06	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	5,000	-	-	
ITP North - Prees Lower Heath speed reduction	KTR07	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	5,000	-	-	
ITP North - B4397 Baschurch speed reduction	KTR08	V Merrill			375	-	-	-	375	375	-	-	-	Green	Green	8,000	-	-	
ITP North - B4396 Knockin Village speed reduction	KTR09	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	5,000	-	-	
ITP North - A49 Hadnall to Preston Brock safety	KTR10	V Merrill			5,000	266	-	-	5,266	4,376	890	14	876	Green	Green	12,014	-	-	
ITP North - Chirk Road Gobowen speed reduction	KTR11	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	5,000	-	-	
ITP North - B5065 Souton road speed reduction	KTR12	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	5,000	-	-	
ITP North - A49 Prees Higher Heath speed reduction	KTR13	V Merrill			5,000	(167)	-	-	4,833	4,833	-	-	-	Green	Green	12,000	-	-	
ITP North - B5063 The Blamer speed reduction	KTR14	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	5,000	-	-	
<i>South</i>																			
ITP South - A442 Norton	KTR15	V Merrill			8,000	-	-	-	8,000	-	8,000	-	8,000	Green	Green	10,000	-	-	
ITP South - A456 Burford Speed Reduction	KTR16	V Merrill			33,801	8,865	-	-	42,666	42,624	42	42	0	Green	Green	3,482	-	-	
ITP South - B4368 Long Medaowend	KTR17	V Merrill			6,000	(747)	-	-	5,253	5,253	-	-	-	Green	Green	-	-	-	
ITP South - A5 Burlington safety	KTR18	V Merrill			35,000	(778)	-	-	34,222	-	34,222	34,222	-	Green	Green	34,222	-	-	
ITP South - B4176 Upper Aston junction improvement	KTR19	V Merrill			15,000	(11,235)	-	-	3,765	3,448	317	317	-	Green	Green	317	-	-	
ITP South - B4555 Severn Centre Highley traffic calming	KTR20	V Merrill			8,000	(3,157)	-	-	4,843	666	4,177	-	4,177	Green	Green	28,439	-	-	
ITP South - A458 Morville Road Safety Improvements	KTR21	V Merrill			12,000	-	-	-	12,000	2,973	9,027	42	8,985	Green	Green	42	-	-	
ITP South - A488 Hope valley safety barrier	KTR22	V Merrill			20,000	-	-	-	20,000	-	20,000	-	20,000	Green	Green	-	-	-	
ITP South - Chorley speed limit	KTR23	V Merrill			3,000	-	-	-	3,000	-	3,000	-	3,000	Green	Green	5,000	-	-	
ITP South - B4378 Shipton speed limit	KTR24	V Merrill			5,000	-	-	-	5,000	102	4,898	-	4,898	Green	Green	5,000	-	-	
ITP South - Ironbridge Road Broseley Speed Reduction	KTR25	V Merrill			17,000	-	-	-	17,000	943	16,057	1,686	14,371	Green	Green	1,686	-	-	
ITP South - A4169 Sheinton Street Much Wenlock	KTR26	V Merrill			-	-	-	-	-	-	-	-	-	Green	Green	-	-	-	
Total					263,319	(18,118)			245,201	139,643	105,558	40,737	64,821			254,616			
Traffic Management																			
<i>Central</i>																			

Shropshire Council - Capital Programme 2014/15 - 2017/18

Capital Scheme Details Period 12 2014/15

Appendix 1 - Capital Scheme Details

Scheme Description	Code	Project Manager	Total Approved Scheme Budget £	Previous Years Spend £	Revised Budget Q3 £	Budget Virements Q4 £	Budget Inc/Dec Q4 £	Reprofile to/from future years Q4 £	Revised Budget Q4 £	Actual Spend 31/03/15 £	Spend to Budget Variance £	Slipped to 2015/16 £	No Longer required / available £	RAG Status Scheme on Budget	RAG Status Scheme Progress	2015/16 Revised Budget £	2016/17 Revised Budget £	2017/18 Revised Budget £
LEP Schemes																		
LEP Oxon Relief Road Project	KOX01	A Evans	368,000		368,000	-	-	-	368,000	172,326	195,674	195,674	-	Green	Green	195,674	-	-
LEP Shrewsbury Integrated Transport Package	KIT01	A Evans	422,000		422,000	-	-	-	422,000	309,720	112,280	112,280	-	Green	Green	112,280	-	-
Total					790,000	-	-	-	790,000	482,046	307,954	307,954	-			307,954	-	-
Project Management																		
Cleobury Mortimer Public Conveniences	K6EM3	S Brown	101,722	99,081	2,641	-	-	-	2,641	2,641	0	-	0	Green	Green	-	-	-
Bridgnorth Riverside Enhancement Scheme	K6PMC	G McGrandle	112,316	50,998	49,000	-	12,318	-	61,318	61,318	-	-	-	Green	Green	-	-	-
Total					51,641	-	12,318	-	63,959	63,959	-	-	-			-	-	-
Retaining Walls and Footbridges																		
Castle Square Car Park Retaining wall	K6BP5	T Sneddon	701,633	669,721	31,912	-	-	-	31,912	31,912	-	-	-	Green	Green	-	-	-
Total					31,912	-	-	-	31,912	31,912	-	-	-			-	-	-
Flood Defences & Water Management																		
Much Wenlock - Flood & Water Management	K6FW1	D Edwards	807,572	175,120	32,452	-	-	-	32,452	35,608	(3,156)	(3,156)	-	Green	Green	596,844	-	-
Craven Arms - Flood & Water Management	K6FW2	D Edwards	70,000	43,951	26,049	-	-	-	26,049	26,049	26,049	26,049	-	Green	Green	26,049	-	-
Church Stretton - Flood & Water Management	K6FW3	D Edwards	179,400	174,636	4,764	-	-	-	4,764	4,764	-	-	-	Green	Green	-	-	-
Shifnal - Flood & Water Management	K6FW4	D Edwards	185,000	36,835	48,165	-	-	-	48,165	48,165	48,165	48,165	-	Green	Green	148,165	-	-
Oswestry - Flood & Water Management	K6FW5	D Edwards	91,640	85,648	5,992	-	-	-	5,992	5,992	5,992	5,992	-	Green	Green	5,992	-	-
Shrewsbury - Flood & Water Management	K6FW6	D Edwards	158,262	125,400	32,862	-	-	-	32,862	32,862	32,862	32,862	-	Green	Green	32,862	-	-
DEFRA Repair & Renewal Flood Grant Scheme	K6FW7	D Edwards	78,534	-	55,000	-	23,534	-	78,534	78,534	-	-	-	Green	Green	-	-	-
The Grove, Minsterley IPP Scheme	K6FW8	D Edwards	66,000	-	34,000	-	-	-	34,000	25,821	8,179	8,179	-	Green	Green	8,179	32,000	-
Shropshire IPP Scheme Phase 1	K6FWA	D Edwards	75,200	-	75,200	-	-	-	75,200	56,384	18,816	18,816	-	Green	Green	18,816	-	-
Total					314,484	-	23,534	-	338,018	201,110	136,908	136,907	-			836,907	32,000	-
Environmental Maintenance - Depots																		
Oswestry Depot	K6H02	S Brown	1,495,223	1,459,899	35,324	-	-	-	35,324	35,324	-	-	-	Green	Green	-	-	-
Depot Redevelopment - Unallocated	K6H03	S Brown	264,877	-	-	-	-	-	-	66,974	(66,974)	(66,974)	-	Green	Green	197,903	-	-
Depot Redevelopment - Hodnet	K6H06	S Brown	137,076	112,936	24,140	-	-	-	24,140	2,971	21,169	21,169	-	Green	Green	21,169	-	-
Depot Redevelopment - Craven Arms	K6H08	S Brown	1,053,136	321,827	731,309	-	-	-	731,309	585,863	145,446	145,446	-	Green	Green	145,446	-	-
Depot Redevelopment - Stourbridge Road, Bridgnorth	K6H09	S Brown	221,797	59,594	162,203	-	-	-	162,203	46,018	116,185	116,185	-	Green	Green	116,185	-	-
Depot Redevelopment - Stourbridge Road Bridgnorth - Salt Dome	K6H10	S Brown	100,000	-	10,000	-	-	-	10,000	10,000	10,000	10,000	-	Green	Green	100,000	-	-
Depot Redevelopment - Manor House Lane Store	K6H11	S Brown	50,000	-	50,000	-	-	-	50,000	-	50,000	50,000	-	Green	Green	50,000	-	-
Total Environmental Maintenance - Depots					1,012,976	-	-	-	1,012,976	737,148	276,828	276,827	-			630,703	-	-
Passenger Transport																		
Replacement Vehicles ITU	K6L14	A Maiden	Ongoing	-	40,750	-	-	-	40,750	40,750	-	-	-	Green	Green	-	-	-
Total					40,750	-	-	-	40,750	40,750	-	-	-			-	-	-
Total Commissioning					23,266,909	(4,913)	(22,143)	-	23,239,853	19,577,854	3,661,999	3,661,999	100,000			23,497,144	17,107,000	16,293,000
Commissioning - Heads of Service																		
Business Growth & Prosperity																		
Visitor Economy																		
Music Hall Refurbishment	K5HA9	A Evans	10,162,270	9,495,029	607,241	-	-	-	607,241	240,331	366,910	366,910	-	Green	Green	426,910	-	-
Music Hall - Miscellaneous	K5HAN	A Evans	25,857	20,579	5,278	-	-	-	5,278	5,278	-	-	-	Green	Green	-	-	-
Heritage Assets Acquisition	K5HAA	E-K Lanyon	4,500	-	4,500	-	-	-	4,500	4,500	-	-	-	Green	Green	-	-	-
Digitalisation of Records	K5HAH	M McKenzie	68,932	64,027	5,973	-	(1,068)	-	4,905	4,905	-	-	0	Green	Green	-	-	-
Records, Archives & Museums Store - Hortonwood	K5HAP	M McKenzie	215,000	56,617	158,383	-	-	-	158,383	89,389	68,994	68,994	-	Green	Green	68,994	-	-
Theatre Services																		
Theatre Severn	K5T14	G Candler	26,323,072	26,302,072	21,000	-	-	-	21,000	21,000	-	-	-	Green	Green	-	-	-
Old Market Hall Projector Replacement	K5HAR	L Cross	48,421	-	44,000	-	4,421	-	48,421	48,421	-	-	-	Green	Green	-	-	-
Theatre Severn - Digital Projector	K5HAT	L Cross	45,609	-	38,500	-	7,109	-	45,609	45,609	-	-	-	Green	Green	-	-	-
Theatre Severn - Major Maintenance Improvement Works	KBT01	L Cross	393,860	-	25,770	-	-	-	25,770	-	25,770	25,770	-	Green	Green	386,260	7,600	-
Total					910,645	-	10,462	-	921,107	469,433	461,674	461,674	-			882,164	7,600	-
Enterprise & Business																		
Food Enterprise Centre - Construction (Battlefield)	KER38	M Pembleton	6,658,535	6,617,861	40,674	-	-	-	40,674	-	40,674	40,674	-	Green	Green	40,674	-	-
Ludlow Eco Park Plot 3	KED20	M Pembleton	75,000	39,825	35,175	-	-	-	35,175	22,758	12,417	12,417	-	Green	Green	12,417	-	-
Adoption/Upgrade of existing Business Park/Workshop Facilities	KED22	M Pembleton	298,565	286,851	12,050	-	(336)	-	11,714	11,714	-	-	-	Green	Green	-	-	-
Shropshire Small Business Loan Scheme - Phase 1	KED32	M Pembleton	500,000	200,000	100,000	-	-	-	100,000	100,000	-	-	-	Green	Green	200,000	-	-
Shropshire Small Business Loan Scheme - Phase 2	KED36	M Pembleton	500,000	125,000	375,000	-	-	-	375,000	125,000	250,000	250,000	-	Green	Green	250,000	-	-
Shrewsbury Business Park Phase 2 Extension	KED33	M Pembleton	1,797,283	1,072,801	654,482	-	-	-	654,482	499,514	154,968	154,968	-	Green	Green	224,968	-	-
MTRP																		
Market Towns Revitalisation	KED19	M Pembleton	408,686	387,069	21,617	-	-	-	21,617	21,617	-	-	-	Green	Green	-	-	-
Market Towns Revitalisation - Oswestry	KED25	M Pembleton	655,569	646,072	9,497	-	-	-	9,497	9,497	-	-	-	Green	Green	-	-	-
Market Towns Revitalisation - Bridgnorth	KED26	M Pembleton	330,330	200,000	93,417	4,913	-	-	98,330	57,796	40,534	40,534	-	Green	Green	72,534	-	-
Market Towns Revitalisation - Market Drayton	KED27	M Pembleton	358,083	356,245	6,470	-	(4,632)	-	1,838	1,838	0	-	0	Green	Green	-	-	-
Market Towns Revitalisation - Ludlow	KED28	M Pembleton	380,886	268,132	112,754	-	-	-	112,754	63,868	48,886	48,886	-	Green	Green	48,886	-	-
Total					1,461,136	4,913	(4,968)	-	1,461,081	913,601	547,480	547,480	-			849,479	-	-
Outdoor Recreation																		
Highley/Alveley Colliery Bridge	K5BCN	T Sneddon	1,874,893	1,824,380	50,513	-	-	-	50,513	38,240	12,273	12,273	-	Green	Green	12,273	-	-
Snailbeach Lead Mine Project	K5BCY	M Blount	105,818	99,859	5,959	-	-	-	5,959	1,895	4,064	4,064	-	Green	Green	4,064	-	-

Scheme Description	Code	Project Manager	Total Approved Scheme Budget £	Previous Years Spend £	Revised Budget Q3 £	Budget Virements Q4 £	Budget Inc/Dec Q4 £	Reprofile to/from future years Q4 £	Revised Budget Q4 £	Actual Spend 31/03/15 £	Spend to Budget Variance £	Slipped to 2015/16 £	No Longer required / available £	RAG Status Scheme on Budget	RAG Status Scheme Progress	2015/16 Revised Budget £	2016/17 Revised Budget £	2017/18 Revised Budget £
Housing Health & Wellbeing																		
Disabled Facilities Grants	K5P03	A Begley	Ongoing	-	1,458,124	-	-	-	1,458,124	1,304,923	153,201	153,201	-	Green	Green	1,832,329	-	-
Market Drayton Empty Property Incentive Grant	K5P14	K Collier	300,000	45,499	254,501	-	-	-	254,501	125,245	129,256	129,256	-	Green	Green	129,256	-	-
Oswestry Area Empty Property Incentive Grant	K5P15	K Collier	200,000	-	150,000	-	-	-	150,000	58,030	91,970	91,970	-	Green	Green	141,970	-	-
Whitchurch Area Empty Property Incentive Grant	K5P17	K Collier	200,000	-	-	-	-	-	-	-	-	-	-	-	-	200,000	-	-
Total					1,862,625	-	-	-	1,862,625	1,488,198	374,427	374,427	-			2,303,555	-	-
Total Adult Services					4,302,675	-	-	-	4,302,675	3,292,288	1,010,387	1,010,386	1			4,971,146	110,000	-
Children's Services																		
Children's Safeguarding																		
Children's Residential Care																		
Children's Residential Care - Buildings Conversion	K3A47	K Bradshaw	35,334	959	-	-	-	-	-	-	-	-	-	Green	Green	34,375	-	-
Total					-	-	-	-	-	-	-	-	-			34,375	-	-
Youth Work																		
Youth - Oswestry Teenspace	K3EY4	R Parkes	2,735,667	2,687,271	48,396	-	-	-	48,396	-	48,396	48,396	-	Green	Green	48,396	-	-
Total					48,396	-	-	-	48,396	-	48,396	48,396	-			48,396	-	-
Total Children's Safeguarding					48,396	-	-	-	48,396	-	48,396	48,396	-			82,771	-	-
Learning & Skills																		
Early Years																		
Short Breaks	K3L59	N Ward	453,887	428,697	25,190	-	-	-	25,190	16,109	9,081	9,081	-	Green	Green	9,081	-	-
Early Years Unallocated	KLE00	N Ward	Ongoing	-	1,859	12,252	-	-	14,111	-	14,111	14,111	-	Green	Green	94,111	-	-
Two Year Old Funding for Early Education	K3LA1	N Ward	806,770	806,770	20,993	(20,993)	-	-	-	-	-	-	-	Green	Green	-	-	-
Brownlee Nursery	K3L01	N Ward	282,722	260,679	22,043	-	-	-	22,043	329	21,714	21,714	-	Green	Green	21,714	-	-
Raymond House Refurbishment	K3L02	N Ward	21,766	13,119	4,712	3,935	-	-	8,647	8,647	-	-	-	Green	Green	-	-	-
Hammerley EY Demountable Refurbishment	K3L04	N Ward	10,051	-	9,642	409	-	-	10,051	10,051	-	-	-	Green	Green	-	-	-
Woodfield Infants Demountable Roof Works & Glazing	K3L05	N Ward	6,313	-	6,313	-	-	-	6,313	6,313	-	-	-	Green	Green	-	-	-
Maneside Primary - St Giles Pre-school Extension & Refurbishment	K3L06	N Ward	220,000	-	60,000	-	-	-	60,000	385	59,615	59,615	-	Green	Green	219,615	-	-
Crownmoor Primary - Nursery Toilet Accommodation	K3L08	N Ward	35,109	25,912	9,197	-	-	-	9,197	9,197	-	-	-	Green	Green	-	-	-
Broseley Primary Alterations to Bungalow	K3L09	N Ward	52,693	-	49,150	3,543	-	-	52,693	52,693	-	-	-	Green	Green	-	-	-
Maneside - Treetops Alterations	K3L10	N Ward	13,512	-	12,658	854	-	-	13,512	13,512	0	-	0	Green	Green	-	-	-
Broseley Primary Early Years	K3L11	N Ward	200,000	-	-	-	-	-	-	105	(105)	(105)	-	Green	Green	199,895	-	-
Worthen Primary Early Years	K3L12	N Ward	100,000	-	-	-	-	-	-	-	-	-	-	Green	Green	100,000	-	-
Whitchurch Children's Centre	K3L14	N Ward	210,000	-	-	-	-	-	-	1,075	(1,075)	(1,075)	-	Green	Green	208,925	-	-
Total					221,757	-	-	-	221,757	118,416	103,341	103,341	-			853,341	-	-
Primary Schools																		
Primary School Refurbishment Unallocated	KLP00	P Wilson	Ongoing	-	-	16,005	-	-	16,005	-	16,005	16,005	-	Green	Green	21,461	-	-
Chirbury - School House Refurbishment	K3122	P Wilson	96,314	1,776	94,538	-	-	-	94,538	58,200	36,338	36,338	-	Green	Green	36,338	-	-
Bridgnorth Castlefields - Nursery & Classbase	K3156	P Wilson	305,344	304,518	826	-	-	-	826	826	0	-	0	Green	Green	-	-	-
Christ Church Cressage Primary - Secure Lobby	K3165	P Wilson	46,997	41,547	5,450	-	-	-	5,450	5,450	-	-	-	Green	Green	-	-	-
Ford Trinity - Secure Lobby	K3170	P Wilson	82,620	68,005	14,615	-	-	-	14,615	14,615	-	-	-	Green	Green	-	-	-
Longnor - Secure Lobby	K3171	P Wilson	57,289	45,717	11,572	-	-	-	11,572	11,572	-	-	-	Green	Green	-	-	-
Wistanstow - Secure Lobby	K3172	P Wilson	31,322	31,091	232	-	-	-	232	231	1	-	1	Green	Green	-	-	-
Belvidere Primary - Creation of GP Space	K3A04	P Wilson	78,152	760	79,230	(1,839)	-	-	77,391	77,392	(1)	-	(1)	Green	Green	-	-	-
Highley - Reconfigure Office Area & Accessible Toilet	K3A08	P Wilson	90,000	-	30,000	-	-	-	30,000	618	29,382	29,382	-	Green	Green	89,382	-	-
Ludlow Infants - Creation of PPA Space	K3A13	P Wilson	29,176	27,928	1,250	-	-	-	1,250	1,250	-	-	-	Green	Green	-	-	-
St Andrews Shifnal KS2 GP Space	K3A21	P Wilson	94,292	93,914	378	-	-	-	378	378	0	-	0	Green	Green	-	-	-
St Giles Shrewsbury - GP Space	K3A22	P Wilson	104,922	51,421	53,501	-	-	-	53,501	53,501	-	-	-	Green	Green	-	-	-
Sundorne Infants - Nursery & Reception Toilet Refurbishment	K3A26	P Wilson	81,914	80,885	1,029	-	-	-	1,029	1,029	0	-	0	Green	Green	-	-	-
Woodfield Infants - Refurbishment Nursery Demountable/Secure L	K3A30	P Wilson	208,838	178,041	30,797	-	-	-	30,797	3,190	27,607	27,607	-	Green	Green	27,607	-	-
Buildwas Primary - Demountable Toilets Refurbishment & Kinlet Primary - Heads Office/PPA/Lobby Works	K3A53	P Wilson	88,080	420	87,660	-	-	-	87,660	87,660	0	-	0	Green	Green	-	-	-
Beckbury - Improve Outside EYFS Area	K3A56	P Wilson	19,863	18,223	1,640	-	-	-	1,640	1,640	0	-	0	Green	Green	-	-	-
Radbrook Primary - Secure Lobby	K3A57	P Wilson	89,748	-	67,579	22,169	-	-	89,748	89,748	0	-	0	Green	Green	-	-	-
St. Thomas & St. Anne CE Primary School, Hanwood - Secure Lo	K3A58	P Wilson	73,236	865	78,457	(6,086)	-	-	72,371	72,371	0	-	0	Green	Green	-	-	-
Worthen Primary - Secure Lobby	K3A59	P Wilson	76,736	195	35,325	-	-	-	35,325	-	35,325	35,325	-	Green	Green	76,541	-	-
St Laurence, Ludlow- Secure Lobby & Office Extension	K3A60	P Wilson	89,779	-	99,388	(9,609)	-	-	89,779	89,779	0	-	0	Green	Green	-	-	-
West Felton Primary - Lobby/Office/Staffroom Improvements	K3A66	P Wilson	93,091	22,156	70,935	-	-	-	70,935	70,935	-	-	-	Green	Green	-	-	-
Crittins Primary - Secure Lobby	K3A67	P Wilson	45,354	28,500	17,304	-	-	-	17,304	17,304	0	-	0	Green	Green	-	-	-
Cheswardine - Extension reception & office	K3A70	P Wilson	93,354	385	97,518	(4,549)	-	-	92,969	92,969	0	-	0	Green	Green	-	-	-
Whitchurch Infant School - Paving Replacement	K3A73	P Wilson	21,963	21,963	-	-	-	-	-	-	-	-	-	Green	Green	-	-	-
Woodfield Infants - Toilet Refurbishment	K3A77	P Wilson	72,298	66,600	5,697	-	-	-	5,697	5,698	(1)	-	(1)	Green	Green	-	-	-
Beckbury Fire Alarm System	K3A83	P Wilson	5,074	-	5,074	-	-	-	5,074	5,074	-	-	-	Green	Green	-	-	-
Ellesmere Primary - Alterations to Secure Lobby/Reception	K3A85	P Wilson	48,346	-	50,519	-	-	-	48,346	48,346	-	-	-	Green	Green	-	-	-
Harlescott Junior Toilet Refurbishment	K3A86	P Wilson	36,774	-	42,464	(6,952)	-	-	35,512	35,050	463	463	-	Green	Green	1,724	-	-
St George's Toilet Refurbishment	K3A87	P Wilson	47,143	-	47,143	-	-	-	47,143	47,143	-	-	-	Green	Green	-	-	-
St John The Baptist Secure Lobby	K3A88	P Wilson	7,770	-	7,770	-	-	-	7,770	-	7,770	7,770	-	Green	Green	7,770	-	-

Scheme Description	Code	Project Manager	Total Approved Scheme Budget £	Previous Years Spend £	Revised Budget Q3 £	Budget Virements Q4 £	Budget Inc/Dec Q4 £	Reprofile to/from future years Q4 £	Revised Budget Q4 £	Actual Spend 31/03/15 £	Spend to Budget Variance £	Slipped to 2015/16 £	No Longer required / available £	RAG Status Scheme on Budget	RAG Status Scheme Progress	2015/16 Revised Budget £	2016/17 Revised Budget £	2017/18 Revised Budget £
Total Learning & Skills					10,912,332	-	(11,679)	-	10,900,653	8,561,473	2,339,179	2,339,178	2			12,335,697	5,228,259	7,666,783
Total Children's Services					10,960,728	-	(11,679)	-	10,949,049	8,561,473	2,387,575	2,387,574	2			12,418,468	5,228,259	7,666,783
Resources & Support																		
Customer Care & Support Services																		
Property Services																		
Market Drayton Market Hall	KXX73	S Jackson	598,833	585,133	13,700	-	-	-	13,700	13,700	-	-	-	Green	Green	-	-	-
Lord Hill Statue Repairs	KCS01	S Jackson	70,492	15,368	124,632	-	(69,508)	-	55,124	55,124	-	-	-	Green	Green	-	-	-
Acquisition - Former Oswestry Health Centre	KRP01	S Jackson	340,000	-	340,900	-	-	-	340,900	340,000	900	-	900	Green	Green	-	-	-
Mardol House Acquisition	KRP02	S Jackson	4,161,000	-	4,161,000	-	-	-	4,161,000	4,160,000	1,000	1,000	-	Green	Green	1,000	-	-
Mardol House Adaptation and Refit	KRP03	S Jackson	3,639,000	-	420,221	-	-	-	420,221	167,641	252,580	252,580	-	Green	Green	3,410,929	60,430	-
Total					5,060,453	-	(69,508)	-	4,990,945	4,736,464	254,481	253,580	900			3,411,929	60,430	-
Estates & Facilities - Energy & Sustainability																		
Shawbury St Marys Solar PV	KRV01	S Law	66,548	-	-	-	193	-	193	193	1	-	1	Green	Green	66,355	-	-
Total					-	-	193	-	193	193	1	-	1			66,355	-	-
Estates & Facilities - Small Holdings																		
The Clamp - Smallholding Refurbishment	KCS03	S Law	149,940	-	31,940	-	-	-	31,940	6,207	25,733	25,733	-			143,733	-	-
Total					31,940	-	-	-	31,940	6,207	25,733	25,733	-			143,733	-	-
Estates & Facilities - Gypsy Sites																		
Gypsy Site - Park Hall, Oswestry	K6T01	S Law	520,000	224,986	295,014	-	-	-	295,014	209,798	85,216	85,216	-	Green	Green	85,216	-	-
Gypsy Site - Long Lane, Craven Arms	K6T02	S Law	311,999	192,193	119,807	-	-	-	119,807	75,402	44,405	44,405	-	Green	Green	44,404	-	-
Gypsy Site - Manor House Lane	K6T03	S Law	607,475	13,392	564,083	-	-	-	564,083	295,684	268,399	268,399	-	Green	Green	298,399	-	-
Gypsy Sites - Whittington Phase 2	K6T04	S Law	677,220	-	647,220	-	-	-	647,220	352,234	294,986	294,986	-	Green	Green	324,986	-	-
Gypsy Sites - Craven Arms Phase 2	K6T05	S Law	483,729	-	463,729	-	-	-	463,729	331,027	132,702	132,702	-	Green	Green	152,702	-	-
Total					2,089,853	-	-	-	2,089,853	1,264,146	825,707	825,707	-			905,707	-	-
Total Customer Care & Support Services					7,182,246	-	(69,315)	-	7,112,931	6,007,010	1,105,921	1,105,020	901			4,527,724	60,430	-
Local Strategy & Democratic Elections																		
Elect Booth Replacement Programme	KLK01	S Ijewsky	43,615	-	43,615	-	-	-	43,615	43,615	-	-	-	Green	Green	-	-	-
A3 Forms Hardware Funding	KLK02	S Ijewsky	29,358	-	29,358	-	-	-	29,358	11,330	18,028	18,028	-	Green	Green	18,028	-	-
Total					72,973	-	-	-	72,973	54,945	18,028	18,028	-			18,028	-	-
Total Resources & Support					7,255,219	-	(69,315)	-	7,185,904	6,061,955	1,123,949	1,123,048	901			4,545,752	60,430	-
Total General Fund Capital Programme					56,200,252	-	(209,067)	-	55,991,185	45,141,347	10,849,836	10,748,934	100,903			58,678,695	30,743,905	23,959,783

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Scheme Description	Code	Project Manager	Total Approved Scheme Budget £	Previous Years Spend £	Revised Budget Q3 £	Budget Virements Q4 £	Budget Inc/Dec Q4 £	Reprofile to/from future years Q4 £	Revised Budget Q4 £	Actual Spend 31/03/15 £	Spend to Budget Variance £	Slipped to 2015/16 £	No Longer required / available £	RAG Status Scheme on Budget	RAG Status Scheme Progress	2015/16 Revised Budget £	2016/17 Revised Budget £	2017/18 Revised Budget £
Housing Revenue Account																		
Major Repairs Programme - SC Contracts																		
Housing Major Repairs Programme	K5P01	A Begley	Ongoing	-	109,412	49,947	-	-	159,359	-	159,359	159,359	-	Green	Green	159,359	3,600,000	3,550,000
Disabled Adaptations	K5P24	A Begley	Ongoing	-	129,642	(20,000)	-	-	109,642	96,779	12,863	12,863	-	Green	Green	12,863	-	-
Replacement Doors	K5P41	A Begley	Ongoing	-	18,177	-	-	-	18,177	18,177	-	-	-	Green	Green	-	-	-
Roofing	K5P42	A Begley	Ongoing	-	-	-	-	-	-	-	-	-	-	Green	Green	-	-	-
Heating Installations	K5P43	A Begley	Ongoing	-	3,284	-	-	-	3,284	3,284	-	-	-	Green	Green	-	-	-
Heating/Kitchen Void Works	K5P44	A Begley	Ongoing	-	279,652	-	-	-	279,652	259,794	19,858	19,858	-	Green	Green	19,858	-	-
Asbestos Removal	K5P45	A Begley	Ongoing	-	225,277	-	-	-	225,277	171,363	53,914	53,914	-	Green	Green	53,914	-	-
Major Works Programme	K5P56	A Begley	Ongoing	-	-	-	-	-	-	-	-	-	-	Green	Green	-	-	-
Total					766,444	29,947			796,391	649,395	246,996	246,996	1			246,994	3,600,000	3,550,000
Major Repairs Programme - STAR Housing Contracts																		
STAR Rewires	K5R02	A Begley	800,001	163,014	336,987	-	-	-	336,987	304,813	32,174	32,174	-	Green	Green	332,174	-	-
STAR Heating Installation Works	K5R03	A Begley	165,033	150,879	50,825	(36,671)	-	-	14,154	14,154	-	-	-	Green	Green	-	-	-
STAR Electrical Remedial Works	K5R04	A Begley	609,316	109,316	350,000	-	-	-	350,000	243,576	106,424	106,424	-	Green	Green	256,424	-	-
STAR Roofing	K5R05	A Begley	550,000	-	250,000	-	-	-	250,000	206,028	43,972	43,972	-	Green	Green	343,972	-	-
STAR Major Works	K5R06	A Begley	345,091	20,765	150,000	25,046	-	-	175,046	157,706	17,340	17,340	-	Green	Green	166,620	-	-
STAR Kitchens & Bathrooms	K5R07	A Begley	1,505,800	207,521	861,923	(13,644)	-	-	848,279	848,279	-	-	-	Green	Green	450,000	-	-
STAR Fire Safety Works	K5R08	A Begley	244,000	44,570	99,430	-	-	-	99,430	52,186	47,244	47,244	-	Green	Green	147,244	-	-
STAR One Off Doors	K5R09	A Begley	50,000	-	50,000	-	-	-	50,000	33,782	16,218	16,218	-	Green	Green	16,218	-	-
STAR Replacement Lighting & Major Works, Castlefields Oswest	K5R10	A Begley	13,322	-	18,000	(4,678)	-	-	13,322	13,322	0	0	0	Green	Green	-	-	-
STAR External Doors	K5R11	A Begley	218,000	-	50,000	-	-	-	50,000	975	49,025	49,025	-	Green	Green	217,025	-	-
STAR External Wall Insulation	K5R12	A Begley	900,000	-	100,000	-	-	-	100,000	6,395	93,605	93,605	-	Green	Green	893,605	-	-
STAR Disabled Aids & Adaptations	K5R13	A Begley	500,001	-	250,000	-	-	-	250,000	236,076	13,924	13,924	-	Green	Green	263,925	-	-
STAR Heating Insulation Works (Liberty)	K5R14	A Begley	1,750,000	-	950,000	-	-	-	950,000	819,652	130,348	130,348	-	Green	Green	930,348	-	-
STAR Sewage Treatment Works	KSH01	A Begley	70,000	-	-	-	-	-	-	-	-	-	-	Green	Green	70,000	-	-
STAR Asbestos Removal	KSH02	A Begley	200,000	-	-	-	-	-	-	-	-	-	-	Green	Green	200,000	-	-
STAR Kitchens & Bathrooms Voids	KSH03	A Begley	250,000	-	-	-	-	-	-	-	-	-	-	Green	Green	250,000	-	-
STAR Oswestry Castlefields Regeneration	KSH04	A Begley	150,000	-	-	-	-	-	-	-	-	-	-	Green	Green	150,000	-	-
Total					3,517,166	(29,947)			3,487,218	2,936,944	560,274	560,274				4,687,565		
House re-purchases																		
House re-purchases	K5RP1	A Begley	Ongoing	-	60,030	-	-	-	60,030	60,030	-	-	-	Green	Green	-	-	-
Total					60,030				60,030	60,030								
New Build Programme																		
Housing New Build Programme - Phase 1	K5NB1	A Begley	7,395,130	1,208,697	6,099,343	-	-	-	6,099,343	5,565,165	534,178	534,178	-	Green	Green	621,288	-	-
Housing New Build Programme - Phase 2	K5NB2	A Begley	2,600,000	-	-	-	-	-	-	-	-	-	-	Green	Green	2,357,000	243,000	-
Total					6,099,343				6,099,343	5,565,165	534,178	534,178				2,978,288	243,000	
Total Housing Revenue Account																		
					10,441,982				10,441,982	9,111,534	1,330,448	1,330,447	1			7,911,817	3,843,000	3,550,000
Total Capital Programme																		
					66,642,234		(209,067)		66,433,167	54,252,882	12,180,284	12,079,381	100,904			66,590,512	34,586,905	27,509,783

Financing	Revised Budget Q3 £	Budget Virements Q4 £	Budget Inc/Dec Q4 £	Reprofile to/from future years Q4 £	Revised Budget Q4 14/15 £	2015/16 Revised Budget £	2016/17 Revised Budget £	2017/18 Revised Budget £
Self Financed Prudential Borrowing	4,581,221	-	-	-	4,581,221	3,111,929	60,430	-
Government Grants								
Department for Transport	18,578,888	-	(36,000)	-	18,542,888	18,124,000	16,750,000	16,293,000
Department for Health	808,163	-	-	-	808,163	776,000	-	-
Department for Education								
- Condition Capital Grant	4,275,499	-	-	-	4,275,499	3,432,986	3,432,986	3,432,986
- Basic Need Capital Grant	492,821	-	-	-	492,821	1,709,784	1,795,273	1,784,013
- Universal Infant Free School Meals	587,150	-	-	-	587,150	-	-	-
- Devolved Formula Capital	1,316,962	1,907	(60,902)	-	1,257,967	2,012,814	-	-
Disabled Facilities Grants	1,122,315	-	-	-	1,122,315	1,379,128	-	-
HCA - Travellers	2,062,853	-	-	-	2,062,853	905,707	-	-
HCA - New Build	751,000	-	-	-	751,000	-	-	-
BDUK - Broadband	5,939,611	-	-	-	5,939,611	4,234,554	-	-
Environment Agency	159,202	-	-	-	159,202	752,905	32,000	-
DEFRA	55,000	-	23,534	-	78,534	-	-	-
Cabinet Office	29,358	-	-	-	29,358	-	-	-
Local Enterprise Partnership (LEP) Fund	97,000	-	-	-	97,000	25,601	-	-
Local Government Association	2,160	-	-	-	2,160	-	-	-
	36,277,982	1,907	(73,368)	-	36,206,521	33,353,479	22,010,259	21,509,999
Other Grants								
English Heritage	65,988	-	(37,346)	-	28,642	2,062	-	-
Sports England	78,594	-	-	-	78,594	-	-	-
Sustrans	36,726	-	-	-	36,726	-	-	-
Natural England	165,185	-	-	-	165,185	84,022	-	-
Other Grants	1,644,606	-	-	-	1,644,606	553,550	-	-
	1,991,099	-	(37,346)	-	1,953,753	639,634	-	-
Other Contributions								
Section 106	624,724	3,000	(8,586)	-	619,138	48,569	-	-
Community Infrastructure Levy (CIL)	11,500	-	-	-	11,500	-	-	-
Other Contributions	276,732	-	-	-	276,732	49,109	-	-
	912,956	3,000	(8,586)	-	907,370	97,678	-	-
Revenue Contributions to Capital	4,442,708	38,500	73,071	-	4,554,279	3,034,127	-	-
Major Repairs Allowance	7,456,526	-	-	-	7,456,526	5,777,757	3,600,000	3,550,000
Corporate Resources (expectation - Capital Receipts only)	10,979,742	(43,407)	(162,838)	-	10,773,497	20,575,908	8,916,216	2,449,784
Total Confirmed Funding	66,642,234	-	(209,067)	-	66,433,167	66,590,512	34,586,905	27,509,783

Funding changes - Period 12

Budget Increase/Decreases	2014/15	2015/16	2016/17	2017/18	
Self Financed Prudential Borrowing		199,632			Increase in budget for Mardol House Refurbishment refurbishment to the £7.5m approved by Council for the whole project.
Government Grants					
Department for Transport	(36,000)				Grant funding transferred to revenue.
Department for Education					
- Condition Capital Grant		3,432,986	3,432,986	3,432,986	New future years grant allocation.
- Basic Need Capital Grant				1,784,013	New future years grant allocation.
- Devolved Formula Capital	(60,902)	757,373			Removal of funding as schools transferred to Academy. New future years grant allocation.
Disabled Facilities Grant		128			
DEFRA	23,534				Increase in funding for Repair & Renewal Flood Grant scheme.
Total Government Grants	(73,368)	4,190,487	3,432,986	5,216,999	
Other Grants					
English Heritage	(37,346)				Removal of funding for completed scheme.
Total Other Grants	(37,346)				
Other Contributions					
Section 106	(8,586)				Removal of funding for completed scheme.
Other Contributions		49,109			
Total Other Contributions	(8,586)	49,109	-	-	
Revenue Contributions to Capital	73,071	1,044,704			Minor school revenue contribution to schemes in 2014/15. Significant increases in 2015/16 are £500k of capitalised DSG allocated school kitchen schemes; £200k of New Homes Bonus monies allocated to Whitchurch Area Empty Property Incentive Grant and £300k allocated towards the Mardol House Refurbishment scheme.
Major Repairs Allowance		280			
Corporate Resources	(162,838)	66,355			Removal of minor underspends on completed schemes, offset by new allocation of funding for Solar PV scheme.
	(209,067)	5,550,567	3,432,986	5,216,999	
	-	-	-	-	

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Committee and date
Audit Committee

25 June 2015

Item

Public

STATEMENT OF ACCOUNTS 2014/15

Responsible Officer James Walton

Email: james.walton@shropshire.gov.uk

Tel: (01743) 255011

1. Summary

The 2014/15 Statement of Accounts, which is subject to audit, must be certified as a true and fair view of the financial position of the authority by the S151 Officer by 30 June 2015 (Accounts and Audit Regulations 2011). The Draft Statement of Accounts for 2014/15 is appended to this report. This report provides an overview of the Accounts and also provides details of the reasons for the most significant changes between the 2013/14 Accounts and the 2014/15 Accounts.

The final revenue outturn for 2014/15 is an underspend of £0.300m on an original gross budget of £578m. The final capital outturn shows a spend of £54.253m, representing 82% of the revised budget.

The authority's specific reserves and provisions have increased by £17.939m. The general fund balance has increased by £0.709m. Schools' balances have decreased by £1.565m. Full details of the revenue and capital outturn position and the reserves, provisions and balances held by the authority are set out in separate reports on the Agenda for this meeting.

2. Recommendations

It is recommended that Members:

- A. To receive and comment on the draft 2014/15 Statement of Accounts.
- B. To agree that the Head of Finance, Governance and Assurance be authorised to make any final adjustments to the Statement of Accounts prior to the 30 June 2015.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1. Details of the potential risks affecting the balances and financial health of the Council are detailed within the report. Each projection is also RAG rated to confirm the level of risk to the Council's balances.

4. Financial Implications

- 4.1. This report considers the projected outturn position for the 2014/15 revenue budget and the implications on the level of general fund balances of any overspends or spending pressures.

5. Background

- 5.1. A copy of the 2014/15 Statement of Accounts is attached at Appendix 1. The external audit by Grant Thornton will take place during July and August, after which the Statement of Accounts will be formally published and a final report brought to Full Council. Any material changes as a result of the audit will be reported to the Audit Committee and Council at the earliest opportunity once the Accounts have been signed off by the District Auditor.
- 5.2. The statutory deadline for the formal publication of the audited 2014/15 Statement of Accounts is 30 September 2015.

6. Statement of Accounts

- 6.1. The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Authority, employees and other interested parties clear information about the Authority's finances. The format of the Statement of Accounts is governed by the "Code", to make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities possible. The Code requires:
 - All Statement of Accounts to reflect a common pattern of presentation, although at the same time not requiring them to be identical.
 - Interpretation and explanation of the Statement of Accounts to be provided.
 - The Statement of Accounts and supporting notes to be written in plain language.
- 6.2. All of the above has been taken into consideration when producing the authority's own Statement of Accounts. These accounts comprise various sections and statements, these are all briefly explained below:
 - **An Explanatory Foreword** – this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2014/15.
 - **The Statement of Responsibilities** – this details the responsibilities of the authority and the Section 151 Officer concerning the authority's financial affairs and the actual Statement of Accounts.

- **The Audit Opinion and Certificate** – this is provided by the External Auditor following the completion of the annual audit, this document is therefore draft pending the outcome of the audit.

- **The Core Financial Statements**, which comprises:
 - § **The Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the authority which is analysed into ‘usable reserves’ and other reserves.

 - § **The Comprehensive Income and Expenditure Statement** – this is fundamental to the understanding of a Council’s activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to divert particular expenditure to be met from capital resources. The 2014/15 Income and Expenditure Statement reports a deficit for the year of £128.831m, however, this is not cash as this takes into account a number of significant theoretical amounts for matters relating to pensions and use of assets. The actual movement on the General Fund Balance was a reduction of £4.831m which was due to the re-categorisation of delegated school balances of £5.5m from General Fund to Earmarked Reserves.

 - § **The Balance Sheet** – this is fundamental to the understanding of the authority’s financial position as at the 31 March 2015. It shows the balances and reserves at the authority’s disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held. As can be seen from the balance sheet the authority’s total equity amounts to £391.059m, a reduction of £128.831m which is analysed in the Movement in Reserves Statement. This is primarily due to the increase in the pension liability and also reductions in asset values as a result of Academy transfers and reductions in value of land and buildings held. However the equity value in the balance sheet does demonstrate that the authority’s assets exceed liabilities and still represents a very healthy financial position.

 - § **The Cash Flow Statement** – this consolidated statement summarises the authority’s inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash.

- **The Notes to the Core Financial Statements**, which provides supporting and explanatory information on the Core Financial Statements and includes the Council’s accounting policies.

- **The Group Accounts** – these are prepared to account for the Council’s share in IP&E (Group) Limited, Shropshire Towns & Rural Housing and West Mercia Energy.

- **The Pension Fund Accounts** – the Shropshire County Pension Fund is administered by this Authority, however, the pension fund has to be completely separate from the Authority’s own finances. This statement and supporting notes are an extract from the pension fund annual report and summarises the financial position of the Shropshire County

Pension Fund, including all income and expenditure for 2014/15 and assets and liabilities as at 31 March 2015.

- **The Housing Revenue Account** – the authority is required to account separately for local authority housing provision, as defined in the Local Government and Housing Act 1989 as amended. The account details the income and expenditure relating to the local authority housing provision and details of the movement on the Housing Revenue Account Balance for the year.
- **The Collection Fund Account** - this account shows the transactions of the billing authority in relation to non-domestic rates and the council tax and illustrates how these have been distributed to preceptors and the General Fund.

6.3 The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting 2014/15, published by CIPFA (the Code). For 2014/15 the following changes have been made within the Code to reflect changes in accounting practices and accounting standards. The key changes affecting the Council's statement of accounts are detailed below:

- Group accounts – new accounting standards have been released in relation to the basis of consolidation entities within an authority's group accounts. This has led to a re-evaluation of the definitions of control and classification of entities to be consolidated within the group boundary.
- Accounting for local authority maintained schools – new guidance has been released from CIPFA on the accounting treatment of local authority maintained schools, and consideration of the categories of schools assets in terms of whether the assets should be held on or off the Council's balance sheet.

Analytical Review

7.1 An analytical review has been carried out on each element of the Draft Statement of Accounts, this is a final check that provides assurance that the Statement of Accounts is free of material errors and misstatements. The analytical review focuses on figures within the Statement of Accounts that have changed materially when compared with the previous years accounts. For 2014/15 the materiality threshold (i.e. the level of change between 2013/14 and 2014/15) used was 10% or £8m, which is used to ensure that all questions that the external auditors are likely to raise have been reviewed and explanations are readily available. Details of the significant changes between the two years are shown in Appendix 2.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p>
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<p>CIPFA's Code of Practice (Code) on Local Authority Accounting</p>
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<p>CIPFA/SOLACE guidance on the Annual Governance Statement</p>

<p>Revenue and Capital Budget 2014/15</p>

Cabinet Member (Portfolio Holder)

Brian Williams, Chair of Audit Committee

Local Member

All

Appendices

1. Draft Statement of Accounts 2014/15 (Unaudited)
2. Analytical Review of Statement of Accounts

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Draft Statement of Accounts (Unaudited)

2014-2015

ANNUAL STATEMENT OF ACCOUNTS 2014/15

The Statement of Accounts is the formal financial report on the Council's activities as required by the Accounts and Audit Regulations 2011, and other statutory provisions.

The statement includes:

1. An Explanatory Foreword (pages 1 to 11)
2. The Statement of Responsibilities (page 12)
3. The Audit Opinion and Certificate (pages 13 to 15)
4. The Core Financial Statements comprising:-
 - The Movement in Reserves Statement (pages 16 to 17)
 - The Comprehensive Income and Expenditure Statement (page 18)
 - The Balance Sheet (page 19)
 - The Cash Flow Statement (page 20)
5. The Notes to the Core Financial Statements (pages 21 to 85)
6. Group Accounts:
 - Introduction (pages 86 to 87)
 - The Group Movement in Reserves Statement (page 88 to 90)
 - The Group Comprehensive Income and Expenditure Statement (page 91)
 - The Group Balance Sheet (page 92)
 - The Group Cash Flow Statement (page 93)
 - The Group Account Notes (page 94)
7. The Pension Fund Accounts (pages 95 to 126)
8. The Housing Revenue Account (pages 127 to 131)
9. The Collection Fund (pages 132 to 133)
10. Glossary (pages 134 to 147)

Further information about the Council's Accounts can be obtained from the Finance Department at the Shirehall.

For details please contact James Walton on (01743) 255011, or Cheryl Williams on (01743) 258937.

James Walton
Head of Finance, Governance & Assurance

Section 1

Explanatory Foreword

The Statement of Accounts

The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information about the Council's finances. The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting in the United Kingdom, published by CIPFA (the Code). To make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities possible the Code requires:

- All Statement of Accounts to reflect a common pattern of presentation, although this does not necessarily require them to be in an identical format.
- Interpretation and explanation of the Statement of Accounts to be provided.
- The Statement of Accounts and supporting notes to be written in plain language.

For 2014/15 the following changes have been made within the Code to reflect changes in accounting practices and accounting standards. The key changes affecting the Council's statement of accounts are detailed below:

- Group accounts – new accounting standards have been released in relation to the basis of consolidation entities within a Council's group accounts. This has led to a re-evaluation of the definitions of control and classification of entities to be consolidated within the group boundary.
- Accounting for local authority maintained schools – new guidance has been released from CIPFA on the accounting treatment of local authority maintained schools, and consideration of the categories of schools assets in terms of whether the assets should be held on or off the Council's balance sheet.

This statement of accounts comprises various sections and statements, which are briefly explained below:

- **An Explanatory Foreword** – this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2014/15.
- **The Statement of Responsibilities** – this details the responsibilities of the Council and the Chief Financial Officer concerning the Council's financial affairs and the actual Statement of Accounts.
- **The Audit Opinion and Certificate** – this is provided by the external auditor following the completion of the annual audit.
- **The Core Financial Statements**, comprising:

EXPLANATORY FOREWORD

- **The Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the Council which is analysed into ‘usable reserves’ and other reserves.
- **The Comprehensive Income and Expenditure Statement** – this is fundamental to the understanding of a Council’s activities. It brings together all of the functions of the Council and summarises all of the resources the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to divert particular expenditure to be met from capital resources.
- **The Balance Sheet** – like the Income and Expenditure Statement this is also fundamental to the understanding of the Council’s financial position as at 31 March 2015. It shows the balances and reserves at the Council’s disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the non current assets held.
- **The Cash Flow Statement** – this consolidated statement summarises the Council’s inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and cash equivalents.
- **The Notes to the Core Financial Statements** provide supporting and explanatory information on the Core Financial Statements and include the Council’s accounting policies.
- **Group Accounts** – group financial statements are required in order to reflect the variety of undertakings that local authorities conduct under the ultimate control of the parent undertaking of that group. The group accounts should also include any interests where the Council is partly accountable for the activities because of the closeness of its involvements i.e. in associates and joint ventures.
- **The Pension Fund Accounts and Disclosure Notes** – the Shropshire County Pension Fund is administered by this Council, however, the pension fund has to be completely separate from the Council’s own finances. The accounts summarises the financial position of the Shropshire County Pension Fund, including all income and expenditure for 2014/15 and assets and liabilities as at 31 March 2015.
- **The Housing Revenue Account** – There is a statutory duty to account separately for local authority housing provision.
- **The Collection Fund** – This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

A glossary to the Statement of Accounts is also included to help to make, what is ultimately a very technical accounting document, more understandable to the reader.

EXPLANATORY FOREWORD

Financial Report

This section of the Statement of Accounts for 2014/15 sets out:

- The revenue outturn for 2014/15
- The capital programme for 2014/15 – 2017/18
- The capital outturn for 2014/15
- A note on the Council’s Borrowing Position
- A note on the Investment Strategy of the Council
- A note on the Pensions Liability within the Statement of Accounts
- Current and future prospects

Revenue Outturn for 2014/15

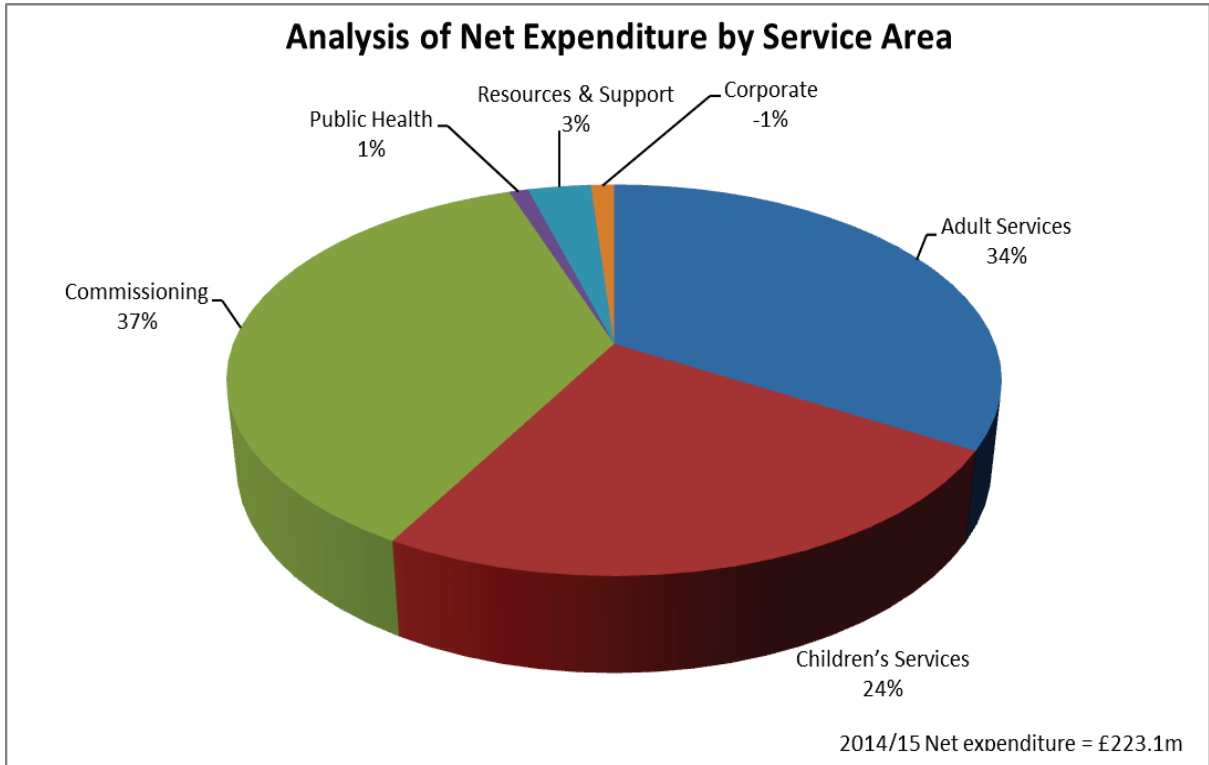
Revenue budgets are monitored and reported regularly in order that service areas can identify any problem areas and take the necessary action to deal with the issues arising. Budget monitoring reports during the course of the year have shown the following position:

	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Outturn £000
Adult Services	1,836	2,055	4,940	4,791
Children’s Services	1,006	993	755	566
Commissioning	2,019	535	(615)	(376)
Public Health	17	(24)	0	(85)
Resources & Support	848	731	557	(772)
Corporate	(2,501)	(2,687)	(5,266)	(4,424)
TOTAL	3,225	1,603	371	(300)

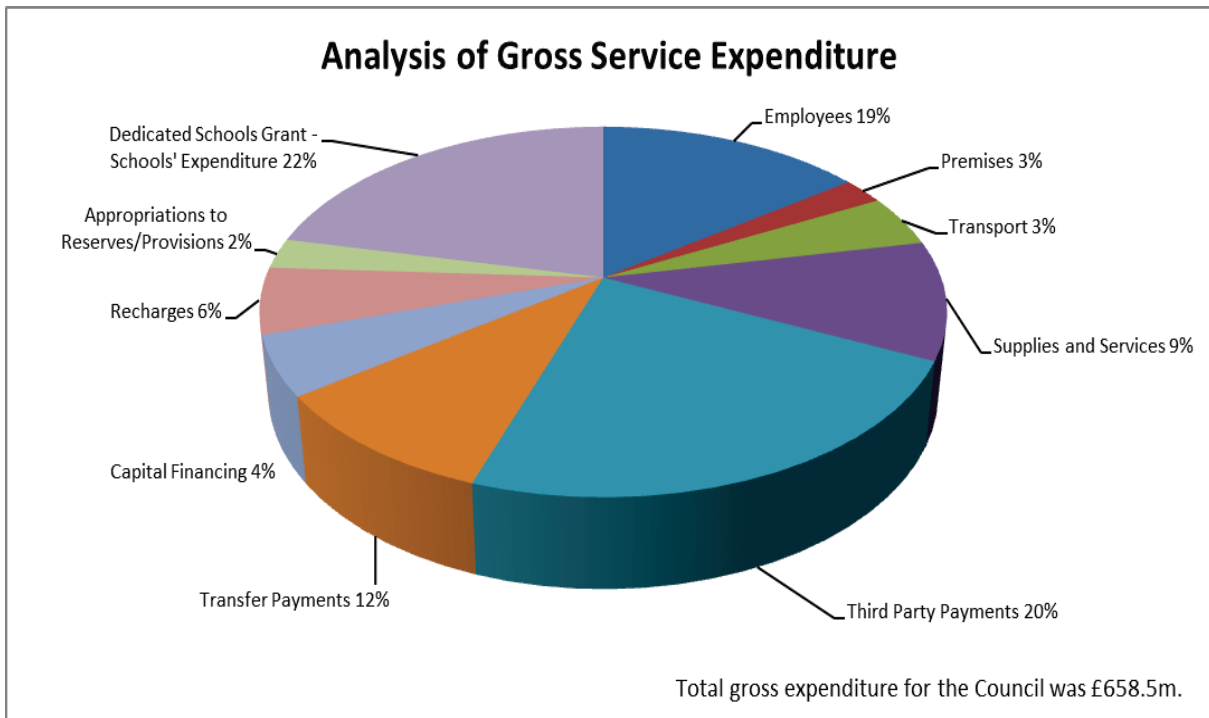
The final outturn position for each Service Area is shown in the table below which compares actual net expenditure with the approved budget.

	Final Budget £000	Actual Outturn £000	Over/ (Under) £000
Adult Services	71,896	76,687	4,791
Children’s Services	55,464	56,030	566
Commissioning	84,085	83,709	(376)
Public Health	2,273	2,188	(85)
Resources & Support	7,950	7,178	(772)
Corporate	1,777	(2,647)	(4,424)
TOTAL	223,445	223,145	(300)

EXPLANATORY FOREWORD

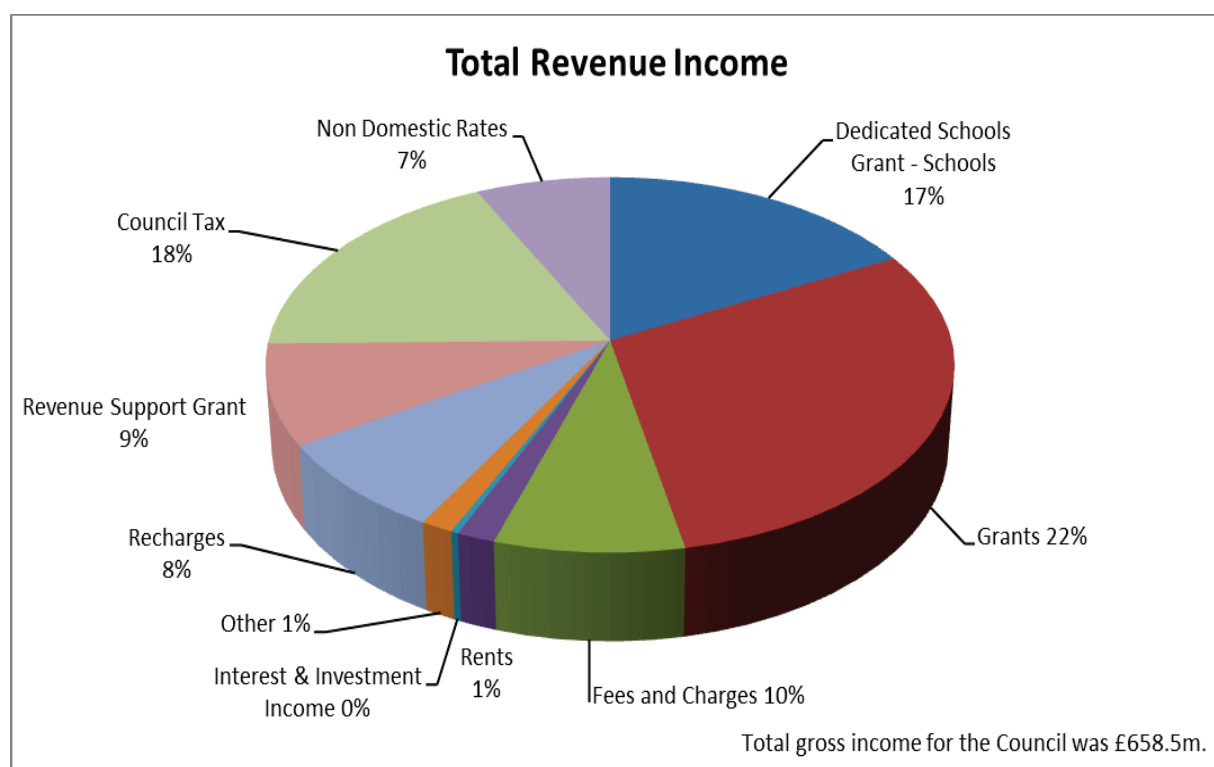


The gross expenditure for the Council was £658.5m, which was spent on the following types of expenditure:



The total sources of income, including service income and income received centrally, is shown in the pie chart below.

EXPLANATORY FOREWORD



The overall underspend of £0.300m against service area's budgets represents 0.05% of the original gross budget of £578m.

In addition, School balances, including invested sums, have decreased by £1.565m from the previous year. Schools' balances have to be ring-fenced for use by schools, and schools have the right to spend those balances at their discretion.

Further detail on the Council's service expenditure can be found within the Comprehensive Income & Expenditure Statement and Note 27 to the Accounts.

The Capital Programme 2014/15 to 2016/17

The Capital Strategy for the four years 2014/15 to 2016/17 details the capital schemes that the Council plans to deliver in that period.

The table below provides a summary of the capital budget for 2014/15 to 2016/17 as included in the 2014/15 Budget Book.

EXPLANATORY FOREWORD

Service Area	2014/15 £000	2015/16 £000	2016/17 £000
General Fund			
Commissioning	33,395	8,152	3,500
Adult Services	1,420	315	0
Children's Services	13,173	1,710	1,795
Resources & Support	268	50	50
Total General Fund	48,256	10,227	5,345
Housing Revenue Account	10,091	3,287	0
Total Capital Programme	58,347	13,514	5,345

The Council can fund its capital expenditure from several sources, each with its own advantages and limitations. The main source of funding is Central Government Grants, most of which is for schools and for highways and transportation schemes. For each of these service areas, funding is allocated by the appropriate Government department in accordance with underlying data held.

The table below provides a summary of the capital financing for the capital budget as per the 2014/15 Budget Book.

Financing	2014/15 £000	2015/16 £000	2016/17 £000
Self Financed Prudential Borrowing	261	0	0
Capital Grants & Contributions	35,233	1,710	1,795
Revenue Contributions	2,805	311	0
Major Repairs Allowance	6,294	3,200	0
Corporate Resources (Capital Receipts/ Prudential Borrowing)	13,754	8,293	3,550
	58,347	13,514	5,345

Capital Outturn for 2014/15

The Capital Budget is monitored throughout the year to identify any pressures and re-profile budgets based on revised expenditure projections. The budget changes as a result of slippage from the previous financial years capital programme, new capital allocations received or reductions in existing allocations and re-profiling of capital allocations between financial years.

The table below provides a summary of the revised capital budget and expenditure for 2014/15 as at outturn and slippage into the next financial year.

EXPLANATORY FOREWORD

Service Area	Revised Budget 2014/15 £000	Actual Spend 2014/15 £000	Variance 2014/15 £000
General Fund			
Commissioning	33,553	27,225	6,328
Adult Services	4,303	3,292	1,011
Children's Services	10,949	8,562	2,387
Resources & Support	7,186	6,062	1,124
Total General Fund	55,991	45,141	10,850
Housing Revenue Account	10,442	9,112	1,330
Total Capital Programme	66,433	54,253	12,180

The table below provides a summary of the capital financing for the actual capital expenditure for 2014/15.

Financing	2014/15 £000
Self Financing Prudential Borrowing	4,328
Capital Grants & Contributions	36,487
Revenue Contributions	3,536
Major Repairs Allowance	6,392
Corporate Resources (Prudential Borrowing/Capital Receipts)	3,510
	54,253

The areas of most significant expenditure for schemes undertaken in 2014/15 are as follows:

	Expenditure 2014/15 £000	Scheme Total Budget £000
Commissioning		
Highways, Bridges & Street Lighting Infrastructure	14,962	Ongoing
Integrated Transport Plan	2,471	Ongoing
Highway Depots redevelopment	737	3,322
Shrewsbury Business Park Phase 2 Extension	500	1,797
Affordable Housing Schemes	780	Ongoing
Broadband	4,950	17,494
Adult Services		
Raven Site Development, Market Drayton	1,626	2,172
Disabled Facilities Grants	1,305	Ongoing
Children's Services		
Primary School Schemes	1,133	Ongoing
Basic Need Schemes	431	Ongoing
Primary School Amalgamation Programme	807	Ongoing
Secondary School Schemes	453	Ongoing
School Condition Schemes	2,944	Ongoing
Kettlemere Centre	820	1,015
Devolved Formula Capital & UIFSM - Allocated by schools	1,582	Ongoing
Resources & Support		
Mardol House Acquisition & Refit	4,328	7,8000
Gypsy Sites	1,264	2,600
Housing Revenue Account		
Housing Major Repairs Programme	3,486	Ongoing

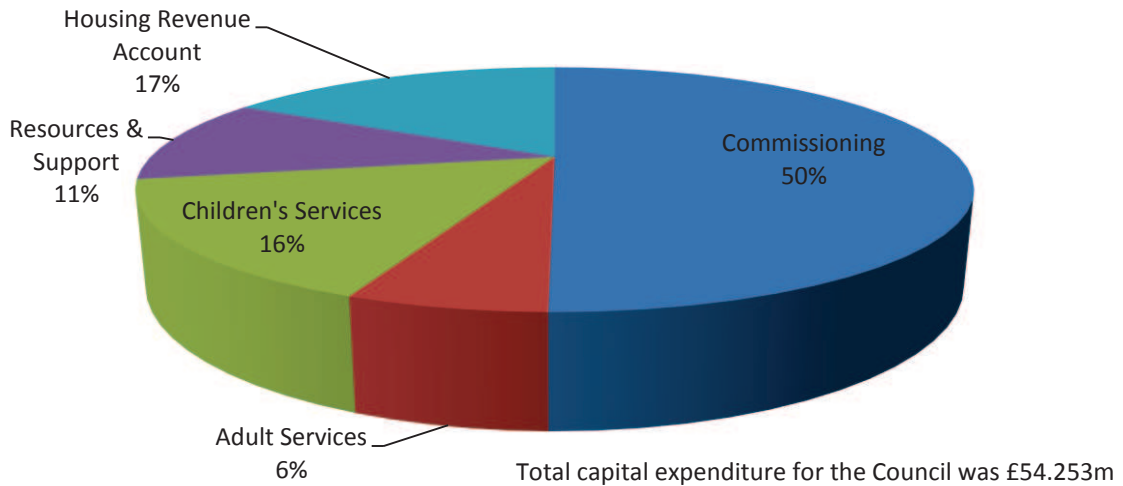
EXPLANATORY FOREWORD

New Build Programme – Phase 1

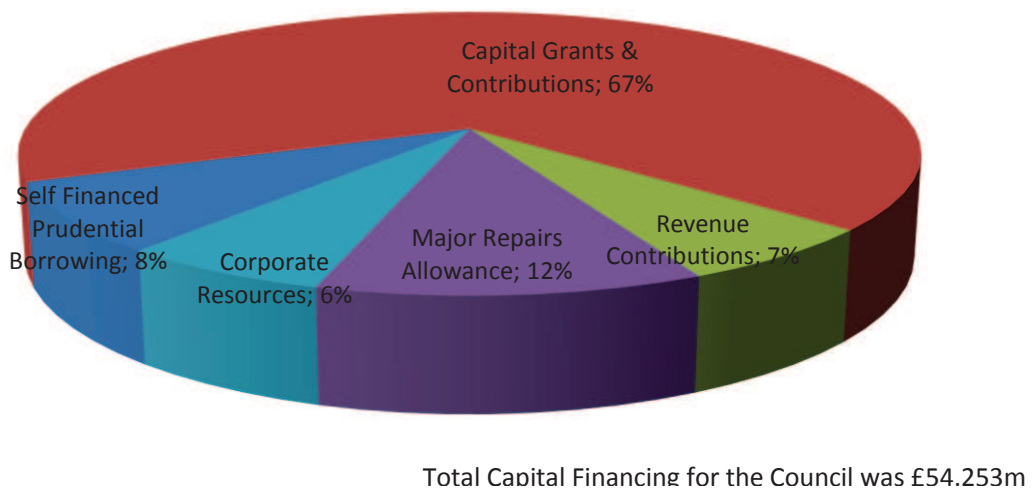
5,565

7,395

Actual Capital Expenditure 2014/15



Actual Capital Financing 2014/15



Borrowing

The Council undertakes long term borrowing, for periods in excess of one year, in order to finance capital spending. The Council satisfies its borrowing requirement for this purpose by securing external loans. However, the Council is able to temporarily defer the need to borrow externally by using the cash it has set aside for longer term purposes; this practice means that there is no immediate link between the need to borrow to pay for capital spend and the level of external borrowing. The effect of using the cash set aside for longer term purposes to temporarily defer external borrowing is to reduce the level of cash that the Council has available for investment.

Due to the reduction in the capital programme and slippage within the programme, there has been no additional borrowing required for current schemes.

Investments

The Council's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy, outlines the Council's investment priorities as the security and liquidity of its capital.

The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with highly credit rated financial institutions using the Capita suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Capita.

A list of counterparties with whom funds could be invested was compiled with reference to the credit ratings issued by the credit agencies Fitch, Moody's and Standard & Poor.

Further details of investment activities are provided within Note 17, which commences on page 63.

Local Government Pension Scheme

The Council accounts for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. This means that:

- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities.

As at 1 April 2014, the Council's net pensions liability amounted to £297m. In comparison, the deficit amounts to £408m at 31 March 2015. Statutory requirements for funding the deficit means the financial position of the Council remains healthy, as the deficit will be met by increased contributions over the remaining working life of employees.

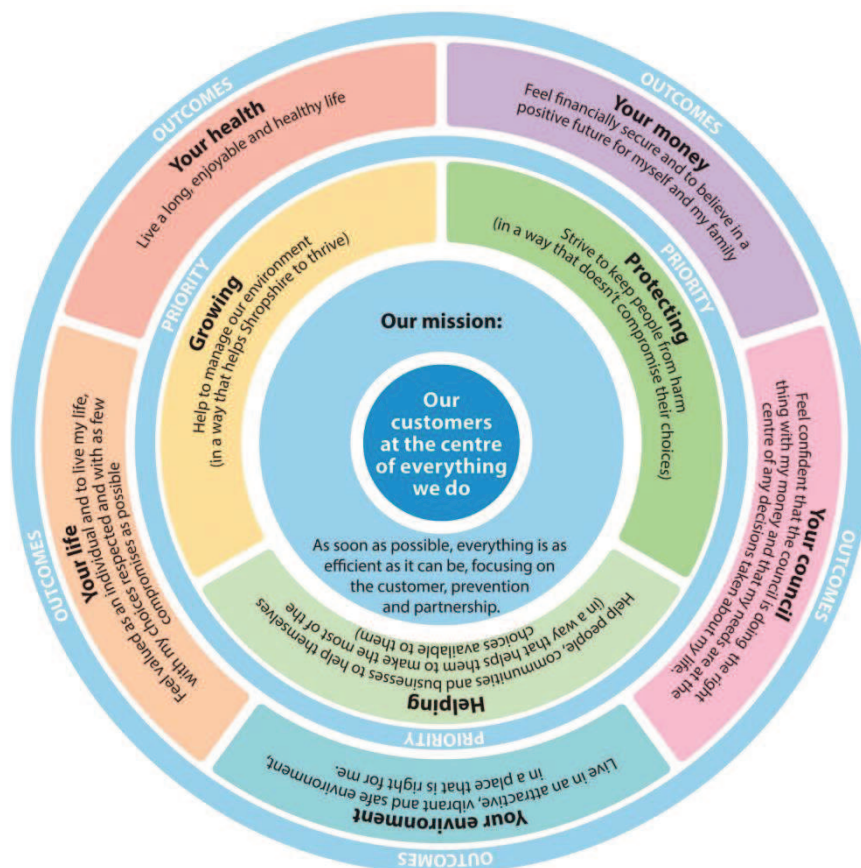
Further details on the basis on which the Council accounts for retirement benefits are provided within the Accounting Policies in note 1 on page 21, and the change to the pension liability in 2014/15 is analysed in note 35 to the accounts.

Current and Future Prospects

As a council, we are focusing on delivering better outcomes for our customers. Everything we undertake should work towards fulfilling one or more of these outcomes, with an emphasis on ensuring that our priorities are delivered.

EXPLANATORY FOREWORD

This is summarised below, and forms the backdrop for delivering the Council's Medium Term Financial Plan over the next three years.



The business plan and financial strategy agreed by members in February 2015 identified savings of £37.082m to be implemented in 2015/16, and a further £16.868m for 2016/17.

Budget pressures will continue to be identified and refined over the medium term. A full review of the medium term financial plan will be performed in 2015/16 and the current three year plan will be extended to cover the period 2016/17 – 2018/19. The following areas require further refinement (over the next twelve months) before consideration for inclusion in the 2016/17 budget:

- Impact of the new Government and the Comprehensive Spending Review expected to be announced towards the end of 2015.
- Consider how the Council could operate if no Revenue Support Grant was received.
- Impact of the introduction of the Care Bill and the Dilnot review for reforming social care funding and the effect of these changes on the Council's income and expenditure.
- Demographic Growth, particularly in services provided by Adult Services, post transformation of the service.
- The movement of schools to Academy status is expected to impact on Council funding and resources.
- The basis for recharging back-office costs to frontline services is currently being reviewed.

EXPLANATORY FOREWORD

- The impact of reducing our asset base (generation of capital receipts) can have a negative impact on revenue funding if an asset currently provides an income stream to the Council.

The Council wholly owns a company (ip&e (Group) Ltd), as a vehicle for delivering a range of public services in Shropshire. Media Services transferred to ip&e (Group) Ltd in 2013/14 and the Programme Management Office and the Business Design Team transferred to the company on 1 April 2014. Help 2 Change and Fulcrum are transferring to ip&e (Group) Ltd in 2015/16 with the phased transfer of Inspire 2 Learn having been approved for 2015/16. Further work will also be carried out around potential other transfers of services to ip&e (Group) Ltd which include, for example, the Customer Service Centre. This work will consider the impact that any transfer has on the Council's financial position and will be determined over the course of this financial year.

Shropshire Council has continued with its policy of reducing the level of prudential borrowing for the capital programme by funding schemes by capital receipts instead. The level of capital receipts required over the period 2015/16 – 2016/17 is £29.5m and the council is continuing with its asset management strategy to identify whether these potential receipts can be generated.

Section 2

Statement of Responsibilities

STATEMENT OF RESPONSIBILITIES

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance, Governance & Assurance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

Approved by Council

The council's Statement of Accounts for 2014/15 was formally approved at a meeting of the Council on xx September 2015.

Malcolm Pate
Chairman of the Council
xx September 2015

Responsibilities of Head of Finance, Governance & Assurance

The Head of Finance, Governance & Assurance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing this Statement of Accounts, the Head of Finance, Governance & Assurance has:

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

The Head of Finance, Governance & Assurance has also:

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

Certificate of the Head of Finance, Governance & Assurance

I hereby certify that the Statement of Accounts present a true and fair view of the financial position and the income and expenditure of the Council for the year ended 31 March 2015

James Walton
Head of Finance, Governance & Assurance
30 June 2015

Section 3

**Audit Opinion &
Certificate**

TO BE UPDATED FOLLOWING AUDIT OF ACCOUNTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

Opinion on the financial statements

We have audited the financial statements of Shropshire Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes.

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 2013/14.

This report is made solely to the members of Shropshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Head of Finance, Governance and Assurance and auditor

As explained more fully in the Statement of the Head of Finance, Governance and Assurance's Responsibilities, the Head of Finance, Governance and Assurance 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance and Assurance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword and Group Accounts Introduction to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

AUDIT OPINION AND CERTIFICATE

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Shropshire Council as at 31 March 2014 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the Explanatory Foreword and Group Accounts Introduction for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

AUDIT OPINION AND CERTIFICATE

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Shropshire Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack and completed our consideration of matters brought to our attention by local authority electors. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Jon Roberts

Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza,
20 Colmore Circus,
Birmingham
B4 6AT

30 September 2014

Section 4

Core Financial Statements

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General Fund Balance * £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2014	20,019	35,119	2,545	3,722	2,786	64,191	455,699	519,890
<u>Movement in reserves during 2014/15</u>								
Surplus or (deficit) on the provision of services	(43,734)	0	10,567	0	0	(33,167)	0	(33,167)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(95,664)	(95,664)
Total Comprehensive Income and Expenditure	(43,734)	0	10,567	0	0	(33,167)	(95,664)	(128,831)
Adjustments between accounting basis & funding basis under regulations (Note 6)	58,829	0	(10,036)	(2,087)	1,168	47,874	(47,874)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	15,095	0	531	(2,087)	1,168	14,707	(143,538)	(128,831)
Transfers to/(from) Earmarked Reserves (Note 7)	(19,908)	19,908	0	0	0	0	0	0
Increase/(Decrease) in 2014/15	(4,813)	19,908	531	(2,087)	1,168	14,707	(143,538)	(128,831)
Balance at 31 March 2015	15,206	55,027	3,076	1,635	3,954	78,898	312,161	391,059

For 2014/15, School Balances have been included within Earmarked General Fund Reserves.

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance * £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2013	11,528	42,989	1,041	1,402	3,909	60,869	504,453	565,322
<u>Movement in reserves during 2013/14</u>								
Surplus or (deficit) on the provision of services	(98,168)	0	(844)	0	0	(99,012)	0	(99,012)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	53,580	53,580
Total Comprehensive Income and Expenditure	(98,168)	0	(844)	0	0	(99,012)	53,580	(45,432)
Adjustments between accounting basis & funding basis under regulations (Note 6)	98,793	0	2,344	2,320	(1,123)	102,334	(102,334)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	625	0	1,500	2,320	(1,123)	3,322	(48,754)	(45,432)
Transfers to/(from) Earmarked Reserves (Note 7)	7,866	(7,870)	4	0	0	0	0	0
Increase/(Decrease) in 2013/14	8,491	(7,870)	1,504	2,320	(1,123)	3,322	(48,754)	(45,432)
Balance at 31 March 2014	20,019*	35,119	2,545	3,722	2,786	64,191	455,699	519,890

* Includes General Fund Balances of £14.497m and School Balances of £5.522m.

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2013/14			2014/15			
Gross Expenditure £000	Income £000	Net Expenditure £000		Gross Expenditure £000	Income £000	Net Expenditure £000
Expenditure on Continuing Services (Note 27)						
106,718	(30,535)	76,183	Adult Social Care	102,718	(30,552)	72,166
10,687	(4,595)	6,092	Central Services	8,914	(3,603)	5,311
240,391	(184,852)	55,539	Children's and Education Services	228,346	(174,065)	54,281
30,049	(9,063)	20,986	Cultural and Related Services	22,640	(8,335)	14,305
32,811	(5,500)	27,311	Environmental and Regulatory Services	37,321	(5,691)	31,630
41,760	(11,608)	30,152	Highways and Transport Services	38,301	(10,201)	28,100
15,642	(17,237)	(1,595)	Local Authority Housing (HRA)	5,012	(17,709)	(12,697)
81,701	(75,728)	5,973	Other Housing Services	82,589	(77,981)	4,608
16,037	(8,453)	7,584	Planning Services	20,657	(15,253)	5,404
10,409	(10,316)	93	Public Health	10,488	(11,103)	(615)
5,078	0	5,078	Corporate and Democratic Core	4,575	0	4,575
(1,608)	0	(1,608)	Non Distributed Costs	(485)	0	(485)
589,675	(357,887)	231,788	Net Cost of Services	561,076	(354,493)	206,583
		106,374	Other Operating Expenditure (Note 8)			70,519
		33,024	Financing and Investment Income and Expenditure (Note 9)			23,737
		(272,174)	Taxation and Non Specific Grant Income (Note 10)			(267,672)
		99,012	(Surplus) or Deficit on the Provision of Services			33,167
		2,093	(Surplus) or Deficit on Revaluation of Non Current Assets			(9,354)
		3,999	Impairment Losses on Non Current Assets Charged to the Revaluation Reserve			3,223
		(59,672)	Remeasurement of the Net Defined Benefit Liability			101,795
		(53,580)	Other Comprehensive Income and Expenditure			95,664
		45,432	Total Comprehensive Income and Expenditure			128,831

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2014	31 March 2015
£000	£000 £000
Non Current Assets	
1,062,212 Property, Plant & Equipment (Note 11)	995,904
2,475 Heritage Assets	2,592
28,878 Investment Property (Note 12)	47,673
776 Intangible Assets	432
1,519 Assets Held for Sale	599
1,095,860 Total Non Current Assets	1,047,200
400 Long Term Investment (Note 16)	400
3,139 Long Term Debtors (Note 16)	7,240
1,099,399 Total Long Term Assets	1,054,840
Current Assets	
0 Current Held for Sale Investment Properties (Note 12)	125
0 Assets Held for Sale	3,635
39,100 Short Term Investments (Note 16)	41,730
966 Inventories	994
68,715 Short Term Debtors (Note 18)	72,260
70,785 Cash & Cash Equivalents (Notes 16 & 19)	68,343
179,566 Total Current Assets	187,087
1,278,965 Total Assets	1,241,927
Current Liabilities	
(17,586) Bank Overdraft (Notes 16 & 19)	(10,131)
(7,397) Short Term Borrowing (Note 16)	(11,117)
(54,465) Short Term Creditors (Note 20)	(51,883)
(4,492) Provisions	(3,585)
(10,628) Grants Receipts in Advance - Revenue (Note 33)	(6,042)
(1,040) Grants Receipts in Advance - Capital (Note 33)	(70)
(95,608) Total Current Liabilities	(82,828)
1,183,357 Total Assets Less Current Liabilities	1,159,099
Long Term Liabilities	
(719) Long Term Creditors (Note 16)	(707)
(337,768) Long Term Borrowing (Note 16)	(328,968)
(22,685) Other Long Term Liabilities (Note 15)	(22,676)
(297,394) Pensions Liability (Note 35)	(407,792)
(4,901) Provisions	(7,897)
(663,467) Total Long Term Liabilities	(768,040)
519,890 Net Assets	391,059
Financed by:	
64,191 Usable Reserves (Note 21)	78,898
455,699 Unusable Reserves (Note 22)	312,161
519,890 Total Reserves	391,059

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital to the Council.

2013/14 £000	Revenue Activities	2014/15	
		£000	£000
99,012	Net (surplus) or deficit on the provision of services	33,167	
(144,532)	Adjust net surplus or deficit on the provision of services for non cash movements	(95,024)	
67,684	Adjust for items in the net surplus or deficit on the provision of services that are investing and financing activities	45,258	
22,164	Net cash flows from Operating Activities (Notes 23 & 24)		(16,599)
(8,821)	Investing Activities (Note 25)	6,298	
11,338	Financing Activities (Note 26)	5,288	
24,681	Net (increase) or decrease in cash and cash equivalents		(5,013)
77,880	Cash and cash equivalents at the beginning of the reporting period		53,199
53,199	Cash and cash equivalents at the end of the reporting period (Note 19)		58,212

Section 5

**Notes to the
Core Financial
Statements**

1. Accounting Policies

1.1. General

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year end of 31 March 2015. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted by the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non current assets and financial instruments.

1.2 Accruals of Expenditure and Income

Revenue transactions are recorded on an accruals basis in accordance with proper accounting practices. In particular:

- 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 Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue 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. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.3. Cash and Cash Equivalents

Cash is defined for the purpose of this statement, as cash in hand and deposits with financial institutions repayable on demand without penalty on notice. Cash equivalents are short term, highly liquid investments, normally with a maturity of 90 days or less, that are readily convertible to known amounts of cash.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5. Non Current Assets - Intangible

An intangible asset is an identifiable non-monetary asset without physical substance. It must be controlled by the Council as a result of past events, and future economic or service benefits must be expected to flow from the intangible asset to the Council (e.g. computer software licences).

Intangible assets are recognised based on cost and are amortised over the economic life of the intangible asset to reflect the pattern of consumption of benefits. Only intangible assets included in the capital programme are capitalised. Each intangible asset is assessed in terms of economic life, usually up to five years.

1.6. Non Current Assets – Property, Plant and Equipment

Property, plant and equipment are assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year.

Recognition

The cost of an item of property, plant and equipment shall only be recognised (and hence capitalised) as an asset on the balance sheet if, and only if:

- It is probable that the future economic benefits or service potential associated with the item will flow to the entity, and
- The cost of the item can be measured reliably.

Costs that meet the recognition principle include initial costs of acquisition, production or construction of assets for use by, or disposal to, a person other than the local authority; and costs incurred subsequently to enhance, replace part of, or service the asset. Subsequent costs

NOTES TO THE CORE FINANCIAL STATEMENTS

arising from day-to-day servicing of an asset (i.e. labour costs and consumables), commonly referred to as ‘repairs and maintenance’, should not be capitalised if they do not meet the recognition principle because the expenditure does not add to the future economic benefits or service potential of the asset and are charged to revenue.

Initial Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost and capitalised on an accruals basis. Accruals are made for capital works with a value of £75,000 or more undertaken but not paid for by the end of the financial year.

Measurement after recognition

Property, plant and equipment assets are subsequently valued at fair value on the basis recommended by the Code of Practice on Local Authority Accounting and in accordance with The Royal Institution of Chartered Surveyors (RICS) Valuation Standards. Property, plant and equipment assets are classified into the groupings required by the Code of Practice on Local Authority Accounting and valued on the following bases:

Category	Valuation Method (Fair Value definition)
<u>Operational</u>	
Council Dwellings	Existing Use Value – Social Housing (EUV-SH)
Land & Buildings	Existing Use Value (EUV) – in accordance with UKPS 1.3 of the RICS Valuation Standards.
	Depreciated Replacement Cost (DRC) – for specialist properties where there is no market-based evidence of fair value because of the specialist nature of the asset and the asset is rarely sold.
Vehicles, Plant & Equipment	Depreciated Historic Cost (HC)
Infrastructure	Historic Cost (HC)
Community Assets	Historic Cost (HC)
<u>Non-operational</u>	
Surplus Assets	Existing Use Value (EUV) or Depreciated Replacement Cost (DRC) applying the same assumptions relating to the level of usage, etc. as those of the most recent valuation as an operational asset
Assets Under Construction	Historic Cost (HC)

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. When new material assets are acquired/constructed or assets substantially enhanced, the asset will be valued in the financial year in which the asset becomes operational. When an asset is revalued, any accumulated depreciation and impairment at the date of valuation shall be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Housing Revenue Account Council Dwellings are subject to an annual review of value in line with regional data provided by the Office for National Statistics (ONS).

Where the carrying amount of property, plant and equipment is increased as a result of a revaluation, the increase shall be recognised in the Revaluation Reserve, unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to an impairment, see 1.9), the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (i.e. up to its historical cost) and thereafter in Surplus or Deficit on the Provision of Services.

Componentisation

Where components of an asset are significant in value in relation to the total value of the asset and they have substantially different economic lives, they are recognised and depreciated separately. The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure and revaluations carried out from 1 April 2010. Significant assets for this purpose are properties with a capital value of £2.5m or over, where depreciation is £100,000 per annum or over, or any component that represents 25% of the total capital value.

Derecognition

The carrying amount of an item of property, plant and equipment shall be derecognised:

- On disposal, or
- When no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an asset shall be the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset shall be included in the Surplus or Deficit on the Provision of Services when the item is derecognised.

If the asset derecognised was carried at a revalued amount, an additional entry is required; the balance on the Revaluation Reserve in respect of the asset derecognised is written off to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

A proportion (based on Agreement – Section 11(6) of the Local Government Act 2003) of receipts relating to dwellings disposed of under the Right to Buy Scheme are payable to the Government through the pooling system. The proportion that is required to be paid over to central government as a 'housing pooled capital receipt' is charged to Surplus or Deficit on the Provision of Services and the same amount appropriated from the Capital Receipts Reserve and credited to the General Fund Balance in the Movement in Reserves Statement.

Where a component of an asset is replaced or restored, the carrying amount of the old component is derecognised, based on the cost of the new component indexed back to the last valuation date. Where the new expenditure is deemed to also enhance the component of the original asset e.g. energy efficiency schemes the carrying amount of the old component is reduced further based on an assessment of the level of enhancement.

1.7. Investment Properties

An Investment property is a property held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of operations.

Investment properties shall be initially measured at cost and thereafter at fair value, which is interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value (MV).

Investment properties held at fair value are not depreciated. The fair value of investment properties shall reflect market conditions at the Balance Sheet date; this means the periodic (5-yearly) revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at Balance Sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

1.8. Non-Current Assets Held for Sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. The following criteria have to be met before an asset can be classified as held for sale under this section of the Code:

- The asset must be available for immediate sale in its present condition.
- The sale must be highly probable; with an active programme to dispose of the asset.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to complete within one year of the date of classification.

Assets Held for Sale are valued at the lower of their carrying amount and fair value (market value) less costs to sell at initial reclassification and at the end of each reporting date, and are not subject to depreciation. Investment Properties that are to be disposed of are not reclassified as an Asset Held for Sale and remain as Investment Properties until disposed of.

1.9. Impairment

At the end of each reporting period an assessment takes place as to whether there is any indication that an asset may be impaired. Examples of events and changes in circumstances that indicate an impairment may have incurred include:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an asset's carrying amount during the period, that is specific to the asset;
- Evidence of obsolescence or physical damage of an asset;
- A commitment by the Council to undertake a significant reorganisation; or
- A significant adverse change in the statutory or other regulatory environment in which the Council operates.

An impairment loss on a revalued asset is recognised in the Revaluation Reserve (to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset) and thereafter in Surplus or Deficit on the Provision of Services.

Where an impairment loss is reversed subsequently, 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.

1.10. Depreciation

Land and buildings are separate assets and are accounted for separately, even when they are acquired together. Depreciation applies to all property, plant and equipment, whether held at historical cost or revalued amount, with the exception of:

- Investment properties carried at fair value;
- Assets Held for Sale; and
- Land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, i.e. quarries and landfill sites).

An asset is not depreciated until it is available for use and depreciation ceases at the earlier of: the date the asset is classified as held for sale and the date the asset is derecognised.

The finite useful life of an asset is determined at the time of acquisition or revaluation. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is calculated using the straight-line method, with the exception of Council Dwellings for which the depreciation charge is based on the Major Repairs Allowance for the year as this is considered to be a reasonable estimate of depreciation.

On a revalued asset, a transfer between the Revaluation Reserve and Capital Adjustment Account shall be carried out which represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost.

1.11. Charges to Revenue for Non Current Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and Impairment losses used on assets used by the service in excess of any balance on the Revaluation Reserve for the asset.
- Amortisation of intangible assets attributable to the service.

Depreciation, amortisation, impairments, revaluation gains or losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund or Housing Revenue Account. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement. The only exception is depreciation charges for HRA dwellings and other properties, which are real charges to the HRA since the Major Repairs Allowance constitutes a reasonable estimate of depreciation for HRA dwellings.

This ensures the Council is not required to raise Council Tax to cover depreciation, amortisation or revaluation/impairment losses. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement; further details are provided at Accounting Policy 1.15 (The Redemption of Debt). Depreciation, amortisation and revaluation/impairment losses are therefore replaced by revenue provision

transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Interest payable is reported within Net Operating cost within the Income and Expenditure Account and depreciation, calculated in accordance with Accounting Policy 1.10 (Depreciation), is charged directly to service revenue accounts.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately on the Movement on Reserves Statement.

1.12. Revenue Expenditure Funded from Capital under Statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the Council, and amounts directed under section 16(2) of Part 1 of the Local Government Act 2003.

Such expenditure is charged to the Surplus or Deficit on the Provision of Services in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure shall be accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance and shown as a reconciling item in the Movement in Reserves Statement.

1.13. Heritage Assets

Tangible Heritage Assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained by the Council principally for their contribution to knowledge and culture. Intangible heritage assets are intangible assets with cultural, environmental, or historical significance.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Councils accounting policies on property, plant and equipment. However, due to the unique nature of Heritage Assets, some of the measurement rules are relaxed in relation to the categories of Heritage Assets held as detailed below. This is due to the lack of valuation information and the disproportionate cost of obtaining the information in comparison to the benefits to the users of the Council's financial statements.

▪ Outdoor Statues/Monuments/Historic Building Remains

The Council has a small number of assets relating to Outdoor Statues/ Monuments/ Historic Building Remains. These assets are reported on the balance sheet, but valuation of these assets is not practical due to the unique nature and lack of comparable market values. These assets are held on the balance sheet at depreciated historic cost, where this is available. Where historic cost information is not available due to the age of the asset, the assets are held at nil value.

The Council's Historical Environment Team, including the Shropshire Archaeology Service manage the Council's historic environment and archaeological sites. The Council does not consider that reliable cost or valuation information can be obtained for the assets held under the Historic Environment and Archaeology Service and the majority would fall into the de-minimus category. This is because of the unique nature of the assets held and lack of comparable market values. It is also recognised that the cost of obtaining this information outweighs any benefits. Consequently, the Council does not recognise these assets on the balance sheet, other than those included under Statues/Monuments/Historic Building Remains.

▪ **Museum and Archives artefacts**

Museum Service

The Shropshire Museum Service runs a countywide service which collects, documents, preserves, exhibits and interprets the material remains of Shropshire's natural and human history for public benefit. The service operates six museums and a museum resource centre.

Principal collections held by the Museum Service include:

- Agricultural
- Archaeology (including Prehistory, Roman, Medieval, Post-Medieval and Foreign)
- Archives
- Biology
- Costume & Textiles
- Decorative & Applied Arts
- Ethnography
- Fine Art
- Geological
- Numismatics
- Social History

The acquisition priorities vary between the principal collections based on existing gaps in the collection and the capabilities and resources available to the service to adequately store, conserve and display collections.

The Museum Service exercises due diligence and makes every effort not to acquire, whether by purchase, gift, bequest or exchange, any object or specimen unless the governing body can acquire a valid title to the item.

By definition, the Museum Service has a long-term purpose and should possess permanent collections in relation to its stated objectives. As a consequence there is a strong presumption against the disposal of any items in the museum's collection. In the event of the Museum Service closing the collections would be offered to other museum authorities and neither the collections nor individual items within them would be sold to generate income.

Complete holdings are not valued, as items are generally unique and full valuation would be extremely expensive; however, some significant items have a market valuation at purchase or

insurance valuation. As a consequence only those items for which the Museum Service holds an existing valuation (above a de-minimus threshold of £5,000) are recognised in the balance sheet. These principally consist of fine art paintings and items of decorative art. These assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. Any new acquisitions will be recognised at purchase price valuation. Assets are not subject to a revaluation cycle, with revaluations only undertaken where required by the Museum Service.

Archives

The Shropshire archives and local studies service preserves and make accessible documents, books, maps, photographs, plans and drawings relating to Shropshire past and present. Not all material is owned by the Council, with a significant proportion on deposit from record owners. No reliable cost or valuation information is held for holdings, with items generally unique and valuation would be considered to be extremely expensive. Consequently the Council does not recognise these assets on the balance sheet.

Shropshire Archives has an Acquisition and Disposal policy. Shropshire Archives will acquire material for the study of all aspects of Shropshire past and present. Material will be acquired by transfer, gift, purchase or deposit. Shropshire Archives will only acquire material if the responsible officer is satisfied that the vendor, donor or depositor has a valid title to the material and will not acquire material if it cannot provide adequate storage or professional care for it. There is a strong presumption against the disposal by sale of any material in Shropshire Archives ownership. If materials are to be sold they should first be offered to other appropriate public collecting institutions. All monies received by Shropshire Archives from the sale of material shall be used for the benefit of the Service's collections.

▪ **Civic Regalia**

The Council does not hold significant items of Civic Regalia and no current valuation information is held for these items. Consequently the Council does not recognise these assets on the balance sheet.

Heritage Assets – Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policy on impairment.

1.14. Capital Receipts

Capital receipts from the disposal of assets are held in the Usable Capital Receipts Reserve until such time as they are used to finance other capital expenditure or to repay debt. At the balance sheet date, the Council may opt to set aside capital receipts in-hand within the Capital Adjustment Account to reduce the Capital Financing Requirement and the Minimum Revenue Provision (MRP) charge for the following financial year.

1.15. The Redemption of Debt

The Council makes provision for the repayment of debt in accordance with the statutory "Minimum Revenue Provision" (MRP) requirements. For supported borrowing MRP is 4% p.a. of the adjusted (by the *A adjustment*) Capital Financing Requirement. For unsupported borrowing under the Prudential system MRP is calculated over the estimated life of the asset for which the borrowing is undertaken. This amount is transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

For HRA debt there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA against the need for investment and delivering services in the HRA.

For assets under on-balance sheet PFI contracts and finance leases, the annual principal payment amount in the PFI or finance lease model is used as the MRP payment amount, with no additional charges above those within the contract.

Where the Council has made capital loans to third parties financed from the Councils balances, the annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge.

1.16. Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- 1) the lease transfers ownership of the asset to the lessee by the end of the lease term;
- 2) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised;
- 3) the lease term is for the major part of the economic life of the asset;
- 4) the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- 5) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Should a yes response be given to two or more of the above questions, then consideration is given to treating the lease as a finance lease.

The Council as Lessee

Property, plant and equipment held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in calculating the Council's Revenue Account balance.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised initially as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the period in which they are incurred.

Where a lease is for land and buildings, the land and building components are separated. Leased land is treated as an operating lease. Leased buildings are assessed as to whether they are operating or finance leases.

The Council as Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Council's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the council's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

1.17. Government Grants and Contributions

Revenue Grants

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution and there is reasonable assurance that the monies will be received. If there are outstanding conditions on the grant income the income is held on the Balance Sheet as a Government debtor/creditor. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant and New Homes Bonus) are credited to the foot of the Comprehensive Income and Expenditure Statement after Net Operating Expenditure.

Capital Grants

Grants and contributions relating to capital expenditure shall be accounted for on an accruals basis, and recognised immediately in the Comprehensive Income and Expenditure Statement

as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) that the Council has not satisfied.

Where a capital grant or contribution (or part thereof) has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date, the grant or contribution shall be transferred from the General Fund (or Housing Revenue Account) to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer shall be reported in the Movement in Reserves Statement.

Community Infrastructure Levy

The Council has elected to charge Community Infrastructure Levy (CIL) with effect from 1 January 2012. The levy applies to planning applications for the following types of development:

- The formation of one or more new dwellings, (including holiday lets), either through conversion or new build, regardless of size (unless it is 'affordable housing'); or
- The establishment of new residential floor space (including extensions and replacements) of 100sqm or above.

The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects. This will largely be capital expenditure and includes roads and other transport schemes, flood defences, schools and other education facilities, medical facilities, sporting and recreation facilities and open spaces. Five percent of CIL charges will be used to meet the administrative costs of operating the levy.

CIL is received without outstanding conditions; it is therefore recognised in the Comprehensive Income and Expenditure Statement in accordance with the Council CIL instalment policy, following commencement date of the chargeable development in accordance with the accounting policy for government grants and contributions set out above.

The only exception for this is CIL monies received on developments where the CIL Liability Notice has been issued after 25th April 2013. On these receipts 15% of gross receipt or 25% in areas with a statutory Neighbourhood Plan in place; is treated as the Neighbourhood Fund element. The Neighbourhood Fund is the portion of CIL provided directly to Town and Parish Councils to be used for the provision, improvement, replacement, operation or maintenance of infrastructure or anything else which is concerned with addressing the demands that development places on an area.

1.18. Financial Assets

The Council holds financial assets in the form of loans and receivables. These are assets that have fixed or determinable payments but are not quoted in an active market. The loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to 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 loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, adjusted for accrued

interest receivable at the year end. Interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to individuals at less than market rates (soft loans). Ordinarily when soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest would then be credited at a marginally higher effective rate of interest than the rate receivable from the individual, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance would be managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. However, the soft loans that the Council has made are not material to the accounts so the impact has not been incorporated into the Core Financial statements, instead Note 16 to the Core Financial Statements provides details about these soft loans.

1.19. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means the amount presented in the Balance Sheet is the outstanding principal repayable, adjusted for accrued interest payable at the year end. Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.20. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year. The reserve is then appropriated back into the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

1.21. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by the transfer of economic benefits, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes apparent that a transfer of economic benefits is not required, the provision is reversed and credited back to the relevant service.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but any material liabilities will be disclosed in a separate note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts if it is probable that there will be an inflow of economic benefits or service potential and the sum is material to the accounts.

1.22. Inventories

Inventories and stock are valued at the lower of cost price or net realisable value.

1.23. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

1.24. Group Accounts

The Council has financial relationships with a number of entities and partnerships and, therefore, is required to prepare Group Accounts, in addition to its main financial statements. All of the financial relationships within the scope of Group Accounts have been assessed.

The Council has accounted for Group Accounts in accordance with IFRS 3 - Business Combination, IFRS10 – Consolidated Financial Statements, IFRS 11 - Joint Arrangements, IFRS12 – Disclosure of Interest in Other Entities, IAS 27 - Separate Financial Statements, IAS28 - Investments in Associates and Joint Ventures except where interpretations or adaptations to fit the public sector have been detailed in the Code of Practice on Local Authority Accounting. Subsidiaries and joint ventures have been consolidated within the Council’s accounts on a cost basis, and accounting policies have been aligned between the Council and the companies consolidated in the Group.

1.25. Value Added Tax (VAT)

Only irrecoverable VAT is included in revenue and capital expenditure. All VAT receivable is excluded from income.

1.26. Employee Benefits

The Council accounts for employee benefits in accordance with the requirements of IAS 19 – Employee Benefits. This covers short-term employee benefits such as salaries, annual leave and flexi leave, termination benefits and post-employment benefits such as pension costs.

In accounting for annual leave the Council has categorised the staff into teachers and other staff. Teaching staff have been accounted for on the basis that working during term time entitles them to paid leave during the holidays e.g. working the Spring Term entitles them to paid Easter holidays. An accrual has been calculated based on the untaken holiday entitlement

relating to the Spring Term. An accrual has been calculated for other staff based on the amount of untaken leave as at 31 March.

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. The cost of these are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure statement.

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 (DfE);
- The NHS Pensions Scheme, administered by NHS Pensions;
- The Local Government Pensions Scheme, administered by Shropshire Council.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. However, the arrangements for the Teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to the two schemes in the year.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Shropshire County Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 3.2% (based on the indicative rate of return on high quality corporate bonds of appropriate duration)
- The assets of the Shropshire County Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
 - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the Shropshire County Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.28. Foreign Currency Transactions

Foreign currency transactions are accounted for on the basis of the equivalent sterling value of the underlying transaction, by applying the spot exchange rate at the date of the transaction.

1.29. Private Finance Initiative (PFI) Schemes

PFI contracts are agreements to receive services, where the PFI contractor has responsibility for making available the assets needed to provide the services. The Council pays the contractor a payment, which is called a unitary charge, for the services delivered under the contract.

The Council has two PFI projects: the Quality in Community Services (QICS) PFI and the Waste Services PFI. Further details of these PFI projects are set out later in the document. The Council is deemed to control the services provided under these two PFI schemes, and as ownership of property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the operational assets used under the contracts on its balance sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the QICS scheme, the liability was written down by an initial capital contribution of £2.5m. At the commencement of the Waste contract the Council made various existing waste infrastructure assets available to the contractor. Under the Waste scheme, not all property, plant and equipment scheduled to be provided in the initial years of the contract has been provided and as a result part of the payments made to the scheme operator have been accounted for as a prepayment, with a corresponding entry also made to set aside the prepayment element of the unitary payment in the Capital Adjustment Account.

Non current assets 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 operators 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** – an interest charge as a percentage (based on the Internal Rate of Return of the scheme) of the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- **Lifecycle replacement costs** – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out. On recognising the prepayment for lifecycle replacement costs a corresponding entry is also made to set aside the prepayment element of the unitary payment in the Capital Adjustment Account.

1.30. Accounting for Council Tax and Non Domestic Rates

The Council Tax income included in the Comprehensive Income & Expenditure Statement is the accrued income for the year, and not the amount required under regulation to be transferred from the Collection Fund to the General Fund (the Collection Fund Demand). The difference is taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

As the collection of Council Tax for preceptors (the West Mercia Police and Crime Commissioner, and Shropshire & Wrekin Fire & Rescue Authority) is an agency arrangement, the cash collected belongs proportionately to Shropshire Council as the billing authority and to the preceptors. This gives rise to a debtor or creditor position for the difference between cash collected from tax-payers and cash paid to preceptors under regulation.

In relation to Non-Domestic Rates, Shropshire Council collects income due as an agency arrangement. As with council tax, the cash collected belongs proportionately to Shropshire Council as the billing authority, and to Central Government and Shropshire & Wrekin Fire & Rescue Authority as preceptors. This gives rise to a debtor or creditor position for the difference between cash collected from tax-payers and cash paid to preceptors under regulation.

1.31. Accounting for Local Authority Maintained Schools

All Local Authority Maintained Schools in the Council area are considered to be entities controlled by the Council. In order to simplify the consolidation process and avoid consolidating in Group Accounts a considerable number of separate, relatively small entities; the Council's single entity financial statements include all the transactions of Local Authority Maintained Schools i.e. income, expenditure, assets, liabilities, reserves and cash flows of the schools.

The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation

The Council recognises on balance sheet the non current assets of schools where the Council legally owns the assets or where the school is in the legal ownership of a non religious body, on the basis that they are the assets of the school and need to be consolidated in to the Council's accounts.

Community schools are owned by the Council and therefore recognised on the balance sheet.

The majority of Voluntary Aided and Voluntary Controlled schools in the Council area are owned by the respective Diocese. There is currently no legal arrangement in place for the School/Council to use the Diocese owned schools. The School/Council uses the school building to provide education under the provisions of the School Standards and Framework Act 1998. On this basis the school assets are used under "mere" licences and the assets are not

recognised on the Council's balance sheet. The only exception to this is there are a small number of schools that should have transferred to Diocese under Education Legislation; but the legal transfer has not been completed. These are still recognised in the Council balance sheet with an additional note disclosing that they are due to transfer.

Foundation schools owned by the Diocese are not recognised on the Council balance sheet as the position is the same as Voluntary Aided and Voluntary Controlled. Where ownership lies with the school or the school's Governing Body the School is recognised on the Council's Balance Sheet. There are a small number of schools who have recently changed their status to Foundation as part of local area Education Trusts. As yet no legal transfers have taken place of school land and buildings. On the assumption that these trusts will constitute the Governing Bodies of these schools, the schools are to remain on-balance sheet. This will be reviewed when the legal transfers are agreed in case the position is different.

Academy schools are not maintained schools controlled by the Council and as such are not accounted for in the Council's Accounts. Schools in Council ownership (Community Schools) which become Academies are provided to the Academy on a 125 year peppercorn lease. When schools transfer to Academy status the assets are written out of the balance sheet as at the date that the asset transfers. Additional notes are included in the accounts disclosing details of any schools where approval by the Department of Education to transfer the School to Academy has been granted, but the school has not transferred by the balance sheet date.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2015/16 Code:

- IFRS 13 Fair Value Measurement. This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions).
- IFRIC 21 Levies. This standard provides guidance on levies imposed by government in the financial statements of entities paying the levy.
- Annual Improvements to IFRSs (2011 – 2013 Cycle). These improvements are minor, principally providing clarification.

It is anticipated that the introduction of these standards will not have a material impact on the financial statements. The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 Statement of Accounts.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty regarding future levels of funding for local government. The Council has undertaken the rigorous challenge of reviewing its spending and as a result has ensured appropriate savings are built into its medium term financial plans. The Council has determined that this uncertainty regarding future funding levels is not known in sufficient enough detail to provide an indication that its assets would be impaired or services reduced significantly. Any action to reduce spending would be taken in a planned and systematic way to reduce the impact on service delivery.
- The Council takes judgements over the element of control in terms of deciding which assets should be on our balance sheet. One such judgement has been taken around Local Authority Maintained schools and particularly Voluntary Aided, Voluntary Controlled and Foundation schools that are not owned by the Council. The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the school's land and buildings on its Balance Sheet where it legally owns the assets or the school Governing Body own the school. Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then they are not included on the Council's Balance Sheet.

The Council has completed an assessment of the different types of schools it controls within the Shropshire Council area to determine how these should be accounted for. The accounting treatment is detailed in the accounting policies (see 1.31).

- The Council is part of the Marches Local Enterprise Partnership (LEP) along with Herefordshire and Telford & Wrekin. The Council acts as accountable body for the LEP and therefore receives grant income on behalf of the LEP and processes expenditure in line with the grant schemes. The Council has concluded that the role of accountable body is to be deemed as an agent, and therefore the net grant held should not be accounted within the Council's accounts.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER 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 that are otherwise uncertain. Estimates are made taking into account 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.

There is a risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2015:

NOTES TO THE CORE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant & Equipment	Full valuation involving an inspection is carried out every 5 years. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year.	There is a risk of material adjustment in the year when the property is revalued.
Dwellings	The value of dwellings held on the balance sheet is subject to impairment due to an estimated increase or decrease in house prices. The Council accounting policy is to use ONS data as the basis for this estimate.	The valuation of dwellings may require a material adjustment in the following year if ONS data is not a reliable estimate.
NDR Appeals Provision	The provision set aside for Non Domestic Rate appeals is estimated based on the number of outstanding appeals as per the Valuation Office and then the percentage rateable value change of successful appeals is applied.	There is a risk that successful appeals will be significantly more than the estimate leading to an increased demand on the NDR collection fund in the year.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to 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. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £19.601m.
Accruals	<p>Estimates of known future expenses or income where amounts are not yet certain are accrued in the year that they relate to. The proportion of estimates within the accruals processed for debtors and creditors are:</p> <ul style="list-style-type: none"> • Debtors 16% • Creditors 4% 	The expense or the income could be either higher or lower than expected. A 10% increase in the estimates for debtors would result in an additional debtor of £0.104m. A 10% increase from the estimate for creditors would result in an additional creditor of £0.095m.

This list does not include assets and liabilities that have been carried at fair value based on a recently observed market price.

5. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Head of Finance, Governance & Assurance on 30 June 2015. Events taking place after this date are not reflected in the financial statement or notes.

At balance sheet date, Department of Education approval had been granted to four schools to convert to Academy School status in the 2015/16 financial year. The conversion dates are anticipated to be later in the year and therefore the approval for transfer is considered as a non adjusting event after the reporting date.

NOTES TO THE CORE FINANCIAL STATEMENTS

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2014/15						
	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:						
<i>Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:</i>						
Charges for depreciation and impairment of non current assets	34,741	334	4,305	0	0	(39,380)
Revaluation losses on Property Plant and Equipment	10,082	(7,717)	0	0	0	(2,365)
Movement in the market value of Investment Properties	(17,734)	0	0	0	0	17,734
Amortisation of intangible assets	365	0	0	0	0	(365)
Capital grants and contributions applied	(34,861)	(922)	0	0	0	35,783
Revenue expenditure funded from capital under statute	12,351	0	0	0	0	(12,351)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	66,932	1,595	0	0	0	(68,527)
<i>Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:</i>						
Statutory provision for the financing of capital investment	(15,055)	0	0	0	0	15,055
Capital expenditure charged against the General Fund and HRA balances	(1,886)	(1,650)	0	0	0	3,536
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(1,872)	0	0	0	1,872	0
Application of grants to capital financing transferred to CAA	0	0	0	0	(704)	704
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(3,180)	(1,712)	0	4,978	0	(86)

NOTES TO THE CORE FINANCIAL STATEMENTS

2014/15

	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	0	(4,435)	0	4,435
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	36	0	(36)	0	0
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	539	0	0	(539)	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	0	32	0	(32)
Adjustment primarily involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	(6,392)	0	0	6,392
Adjustment primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(297)	0	0	0	0	297
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (Note 35)	28,732	0	0	0	0	(28,732)
Employer's pension contributions and direct payments to pensioners payable in the year	(20,129)	0	0	0	0	20,129
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	106	0	0	0	0	(106)
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(6)	0	0	0	0	6
Total Adjustments	58,828	(10,036)	(2,087)	0	1,168	(47,873)

NOTES TO THE CORE FINANCIAL STATEMENTS

2013/14 Comparative Figures	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:						
<i>Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement:</i>						
Charges for depreciation and impairment of non current assets	29,985	170	4,215	0	0	(34,370)
Revaluation losses on Property Plant and Equipment	5,945	3,219	0	0	0	(9,164)
Movement in the market value of Investment Properties	(1,163)	(73)	0	0	0	1,236
Amortisation of intangible assets	420	0	0	0	0	(420)
Capital grants and contributions applied	(28,628)	(850)	0	0	0	29,478
Income in relation to donated assets	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	6,996	0	0	0	0	(6,996)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	105,844	2,038	0	0	0	(107,882)
<i>Insertion of items not debited or credited to the Comprehensive Income & Expenditure Statement:</i>						
Statutory provision for the financing of capital investment	(17,681)	0	0	0	0	17,681
Capital expenditure charged against the General Fund and HRA balances	(2,061)	(379)	0	0	0	2,440
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(533)	0	0	0	533	0
Application of grants to capital financing transferred to CAA	0	0	0	0	(1,656)	1,656
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(6,135)	(1,805)	0	8,029	0	(89)
Use of the Capital Receipts Reserve towards new expenditure	0	0	0	(7,567)	0	7,567
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	0	34	0	(34)	0	0

NOTES TO THE CORE FINANCIAL STATEMENTS

2013/14 Comparative Figures	General Fund Balance £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserves £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	458	0	0	(458)	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	0	30	0	(30)
Adjustment primarily involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	(1,895)	0	0	1,895
Adjustment primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(301)	(1)	0	0	0	302
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (Note 35)	32,223	0	0	0	0	(32,223)
Employer's pension contributions and direct payments to pensioners payable in the year	(24,674)	0	0	0	0	24,674
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(661)	0	0	0	0	661
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,241)	(9)	0	0	0	1,250
Total Adjustments	98,793	2,344	2,320	0	(1,123)	(102,334)

7. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2014/15.

	Balance at 31 March 2013 £000	Transfers Out 2013/14 £000	Transfers In 2013/14 £000	Balance at 31 March 2014 £000	Transfers Out 2014/15 £000	Transfers In 2014/15 £000	Balance at 31 March 2015 £000
Sums set aside for major schemes, such as capital developments, or to fund major reorganisations	4,543	(13,155)	25,673	17,061	(3,135)	5,567	19,493
Insurance Reserves	2,584	(1)	95	2,678	0	324	3,002
Reserves of trading and business units	143	(12)	0	131	0	169	300
Reserves retained for service departmental use	33,646	(26,176)	6,160	13,630	(5,474)	18,183	26,339
School Balances	2,073	(802)	348	1,619	(5,512)	9,786	5,893
Total	42,989	(40,146)	32,276	35,119	(14,121)	34,029	55,027

RESERVES

Sums set aside for major schemes, such as capital developments, or to fund major reorganisations – includes redundancy reserve, and specific reserves to fund capital and major projects including the university and other service transformation within the Council.

Insurance Reserves – includes fire liability and motor insurance reserves to fund the Council's future self insurance liabilities.

Reserves of trading and business units – includes any balance carried forward in relation to Shire Services to help smooth trading profits and losses over future years.

Reserves retained for service departmental use – includes a number of specific earmarked reserves for known service expenditure in future years. Significant balances include an IT expenditure reserve and a reserve including unringfenced revenue grants that have not been spent.

School Balances – includes unspent balances of budgets delegated to individual schools.

A breakdown of all specific earmarked reserve balances is shown in the 2014/15 Revenue Outturn report.

NOTES TO THE CORE FINANCIAL STATEMENTS

8. OTHER OPERATING EXPENDITURE

	2014/15 £000	2013/14 £000
Parish Council Precepts	5,908	5,567
Levies	118	120
Payments to the Government Housing Capital Receipts Pool	539	458
(Gains)/losses on the disposal of non current assets	63,670	99,976
(Gains)/losses on change in valuation of non-current assets	284	253
	70,519	106,374

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2014/15 £000	2013/14 £000
Interest payable and similar charges	19,734	19,355
Net interest on the net defined benefit liability	12,439	13,919
Interest receivable and similar income	(1,815)	(1,829)
Income and expenditure in relation to investment properties and changes in their fair value	(18,559)	(2,332)
(Surpluses)/deficits on Trading Activities	11,938	3,911
	23,737	33,024

10. TAXATION AND NON SPECIFIC GRANT INCOMES

	2014/15 £000	2013/14 £000
Council tax income	(126,097)	(123,791)
Non domestic rates	(45,018)	(45,655)
Non ringfenced government grants	(67,734)	(77,356)
Capital grants and contributions	(28,823)	(25,372)
	(267,672)	(272,174)

11. PROPERTY, PLANT & EQUIPMENT

The figures below provide information on the movement of non current assets held by the Council during 2014/15.

	Dwellings £000	Other Land and Buildings £000	Vehicles Plant & Equipment £000	Infra- structure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or valuation									
At 1 April 2014	155,499	618,008	22,691	419,988	4,356	2,133	8,210	1,230,885	42,560
Additions	8,187	5,720	1,054	17,942	78	0	4,254	37,235	195
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	3,206	0	0	0	68	0	3,274	(2,774)

NOTES TO THE CORE FINANCIAL STATEMENTS

	Dwellings £000	Other Land and Buildings £000	Vehicles Plant & Equipment £000	Infra- structure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	7,730	(14,453)	0	0	0	(20)	(12)	(6,755)	(5,593)
Derecognition - disposals	(1,198)	(62,733)	(975)	0	0	0	0	(64,906)	0
Derecognition - other	0	(6,295)	(6,682)	(156)	(851)	0	(31)	(14,015)	(851)
Assets reclassified (to)/from Held for Sale	(829)	(2,705)	0	0	0	0	0	(3,534)	0
Other movements in cost or valuation	1,111	(12,995)	1	1,073	0	556	(6,120)	(16,374)	(10)
At 31 March 2015	170,500	527,753	16,089	438,847	3,583	2,737	6,301	1,165,810	33,527
Depreciation and Impairments									
At 1 April 2014	(4,375)	(41,575)	(13,818)	(108,082)	(646)	(160)	(17)	(168,673)	(7,952)
Depreciation charge for 2014/15	(4,295)	(11,345)	(2,946)	(11,239)	(174)	(70)	0	(30,069)	(1,621)
Depreciation written out to the Revaluation Reserve	0	6,017	0	0	0	63	0	6,080	139
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	4,456	0	0	0	0	0	4,456	1,820
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	(3,219)	0	0	0	(4)	0	(3,223)	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(333)	(8,639)	0	0	0	(51)	0	(9,023)	0
Derecognition - disposals	33	5,260	456	0	0	0	0	5,749	0
Derecognition - other	0	406	6,655	128	15	0	0	7,204	810
Other movements in depreciation and impairment	0	17,509	0	0	0	67	17	17,593	10
At 31 March 2015	(8,970)	(31,130)	(9,653)	(119,193)	(805)	(155)	0	(169,906)	(6,794)
NBV at 31 March 2015	161,530	496,623	6,436	319,654	2,778	2,582	6,301	995,904	26,733
NBV at 31 March 2014	151,124	576,433	8,873	311,906	3,710	1,973	8,193	1,062,212	34,608

NOTES TO THE CORE FINANCIAL STATEMENTS

The comparative movements in 2013/14 were as detailed below:

	Dwellings £000	Other Land and Buildings £000	Vehicles Plant & Equipment £000	Infra- structure £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total £000	PFI Assets Included in Property, Plant & Equipment £000
Cost or valuation									
At 1 April 2013	176,371	733,112	29,539	404,760	5,090	432	7,881	1,357,185	44,948
Additions	2,163	8,269	1,056	15,320	152	0	6,426	33,386	32
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(342)	(9,203)	0	0	0	(18)	0	(9,563)	(2)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(17,340)	(6,028)	0	0	0	(124)	0	(23,492)	0
Derecognition - disposals	(1,144)	(98,931)	(2,078)	0	0	0	0	(102,153)	0
Derecognition - other	(883)	(4,176)	(5,826)	(92)	(886)	(141)	(53)	(12,057)	(2,574)
Assets reclassified (to)/from Held for Sale	0	(285)	0	0	0	0	830	545	0
Other movements in cost or valuation	(3,326)	(4,750)	0	0	0	1,984	(6,874)	(12,966)	156
At 31 March 2014	155,499	618,008	22,691	419,988	4,356	2,133	8,210	1,230,885	42,560
Depreciation and Impairments									
At 1 April 2013	(17,532)	(45,694)	(16,837)	(97,460)	(929)	(57)	0	(178,509)	(8,217)
Depreciation charge for 2013/14	(4,205)	(13,545)	(4,023)	(10,629)	(239)	(45)	0	(32,686)	(2,153)
Depreciation written out to the Revaluation Reserve	186	7,285	0	0	0	0	0	7,471	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	14,121	450	0	0	0	10	0	14,581	0
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	(3,594)	0	0	0	(405)	0	(3,999)	0
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(170)	(1,111)	0	0	0	(348)	0	(1,629)	0
Derecognition - disposals	0	5,525	1,215	0	0	0	0	6,740	0
Derecognition - other	0	421	5,827	7	522	17	0	6,794	2,574
Other movements in depreciation and impairment	3,225	8,688	0	0	0	668	(17)	12,564	(156)
At 31 March 2014	(4,375)	(41,575)	(13,818)	(108,082)	(646)	(160)	(17)	(168,673)	(7,952)
NBV at 31 March 2014	151,124	576,433	8,873	311,906	3,710	1,973	8,193	1,062,212	34,608
NBV at 31 March 2013	158,839	687,418	12,702	307,300	4,161	375	7,881	1,178,676	36,731

Local Authority Maintained Schools

Included in the above balances for other land and buildings are all or a significant part of 10 primary schools for which plans are being finalised with the Diocese or for which instructions have been issued, but full ownership has not yet transferred to the Diocese. This detailed work is necessary because in many circumstances the schools are now physically different and it is necessary to ensure that the transfers relate purely to the school function and not other uses which may now be on site. There is a legal obligation to transfer ownership under Education legislation (Education Act 1946 or Schools Standards and Framework 1998).

Work commenced on the first transfers in 2008/09, and further schools were identified in 2011/12, mainly as a result of Primary School Amalgamations, which resulted in the change of the category of a number of schools. These schools will be removed from the Council's balance sheet on completion of the legal transfer. The total net book value for these schools as at the balance sheet date is £20.2m.

In addition there are a number of primary schools where a small part of the site is required to transfer from the Council to the Diocese, these are mainly as a result of extensions to schools which have been built across land still in SC ownership (e.g. former playing field land). Work is ongoing to legally transfer these further sections and they are not included in the Council's balance sheet.

Two Secondary schools are listed as Voluntary Controlled schools on the Department of Education list. Under the School Standards and Framework Act 1998 ('the 1998 Act') the school buildings and hard standing should be transferred to the trustees of the school. These should also be transferred to their governing bodies, and are still to be actioned, but may be overtaken by any plans to transfer these schools to Academy status. The total net book value for these schools as at the balance sheet date is £21.2m.

Academy Schools

In 2014/15 seven further schools became Academies. The School land and premises are now leased by the Council to the Academy school on a 125 year peppercorn rent. On this basis the school is now listed in the Council's fixed asset register at nil value. The value written out of the Council balance sheet in 2014/15 for these schools was £51.1m.

At balance sheet date, Department of Education approval had been granted to three schools to convert to Academy status, but their conversion dates are not until later in 2015/16.

Assets Transferred to Other Bodies

In 2014/15 the Council transferred The Shropshire Hills Discovery Centre to South Shropshire Housing Association and SCAT Leisure facilities to SCAT. As the functions of these assets have transferred, the Council gains no value from these on an existing use basis and the assets have been written out of the balance sheet in 2014/15 with a net book value of £6.33m.

Depreciation

The following useful lives have been used in the calculation of depreciation:

- Council Dwelling – Major Repairs Allowance has been used as an estimate of depreciation.
- Other Land and Buildings – average 10 to 60 years range.
- Vehicles, Plant, Furniture & Equipment – average 5 years.
- Infrastructure – average 40 years.

Capital Commitments

At 31 March 2015, the Council has entered into a number of contracts for the purchase, construction or enhancement of Property, Plant and Equipment or to provide grant funding to other bodies for a capital purpose in 2015/16 and future years budgeted to cost £25.528m. Similar commitments at 31 March 2014 were £35.242m. The major commitments were:

- Rural Broadband - £12.435m.
- Highways & Transport schemes - £5.354m.
- Gypsy Sites - £0.595m.
- HRA Major Repairs Programme - £4.688m.
- HRA New Build Programme - £0.330m.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Vehicles, plant, furniture and equipment are held on historic cost basis. The significant assumptions applied in estimating the fair values are:

- That the property is free from any undisclosed onerous burdens, outgoings or restrictions and that good title can be shown.
- That the land and property is not contaminated (including Radon Gas).
- The property and its values are unaffected by any matters which could be revealed by local search or inspection of any register and that the use and occupation of the asset are lawful.
- In valuing the property, plant and machinery have been excluded unless forming part of the structure and normally valued with the building.
- The report does not take account of any liability for taxation which may arise on disposal whether actual or notional, e.g. Capital Gains Tax, or transaction costs, e.g. Stamp Duty.
- Details concerning “title” have been taken from the Council’s Terrier.
- Where there are user rights these have not been considered as having a value because of the inability to transfer such rights.
- The property has not been discussed with the Planning Authorities and therefore certain assumptions in respect of planning issues have been made in determining values. The assumptions made are based on information on file available to the Valuer when undertaking the Valuation.

NOTES TO THE CORE FINANCIAL STATEMENTS

Valuations of Non Current Assets carried at Current Value

The following statement shows the progress of the Council's rolling programme for the revaluation of Property, Plant and Equipment. The valuations are carried out by the Council's internal valuation unit. The basis of valuation is set out in the Statement of Accounting Policies. All values are stated on a net present value basis.

	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Surplus Assets £000	Total £000
Carried at Historical Cost	0	702	6,436	0	7,138
Valued at Fair Value as at:					
01 Apr 14	1,900	158,070	0	954	160,924
01-Apr-13	159,630	94,652	0	1,253	255,535
01-Apr-12	0	82,286	0	173	82,459
01-Apr-11	0	59,887	0	202	60,089
01-Apr-10	0	101,026	0	0	101,026
Total Cost or Valuation	161,530	496,623	6,436	2,582	667,171

In addition the Council has also instructed its valuers to undertake a review of all assets held in the other land and buildings category to ensure that the carrying value of assets as valued in previous years is not materially different from their fair value. All other asset classes are unaffected.

In order to perform this exercise the other land and building category was split into the sub-categories with the relevant values detailed in the table below:

	2014/15 £000	2013/14 £000
Schools, Children's Services and other Education Facilities	245,548	289,507
Culture & Heritage Buildings	61,100	59,983
Leisure & Recreation	50,184	61,656
Highways & Car Parks	44,877	47,410
Social Services	28,898	35,831
Administrative Offices	22,818	35,904
Waste Management Site	14,378	14,759
Business / Commercial Sites (including Markets)	14,370	15,173
Housing Services (including Gypsy Sites)	6,463	6,137
Small Holdings	6,165	6,254
Other	1,822	3,819
Total	496,623	576,433

12. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

NOTES TO THE CORE FINANCIAL STATEMENTS

	2014/15 £000	2013/14 £000
Rental income & service charges from investment property	(964)	(1,263)
Direct operating expenses arising from investment property	139	168
Net (gain)/loss	(825)	(1,095)

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	Long term		Current	
	2014/15 £000	2013/14 £000	2014/15 £000	2013/14 £000
Balance at start of the year	28,878	31,695	0	0
Additions:				
- Purchases	4,500	0	0	0
Disposals:	(2,022)	(4,290)	0	0
Net gains/losses from fair value adjustments	17,759	1,236	(25)	0
Transfers:				
- To/from Property, Plant and Equipment	(1,292)	237	0	0
- To/from Current/Long term	(150)	0	150	0
Balance at end of the year	47,673	28,878	125	0

13. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases 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. The CFR is analysed in the second part of this note.

	2014/15 £000	2013/14 £000
Opening Capital Financing Requirement (including PFI & Finance Lease)	338,035	356,449
Adjustment for loans for capital purposes not previously included in CFR	0	1,565
Adjusted Opening Capital Financing Requirement (including PFI & Finance Lease)	338,035	358,014
Capital investment		
Property, Plant and Equipment	37,357	33,406
Investment Properties	4,500	0
Intangible Assets	16	211
Revenue Expenditure Funded from Capital under Statute	12,351	6,996
Capital Loans	4,255	125

NOTES TO THE CORE FINANCIAL STATEMENTS

	2014/15 £000	2013/14 £000
Sources of finance		
Capital receipts	(4,435)	(7,567)
Capital grants and other contributions	(36,487)	(31,134)
Direct Revenue Financing (Including MRA)	(9,928)	(4,334)
Minimum Revenue Provision	(15,055)	(17,682)
Closing Capital Financing Requirement (including PFI & Finance Lease)	330,609	338,035
Closing Capital Financing Requirement – Supported & Unsupported Borrowing – General Fund	246,044	250,139
Closing Capital Financing Requirement – Supported & Unsupported Borrowing – HRA	84,595	84,594
Closing Capital Financing Requirement – PFI & Finance Lease	(30)	3,302
	330,609	338,035
Explanation of movements in year		
Increase/(decrease) in underlying need to borrow (supported by Government financial assistance)	(9,951)	(10,453)
Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance)	5,856	(4,316)
Assets acquired under finance leases	(23)	(37)
Assets acquired under PFI contracts	(3,308)	(5,173)
Increase/(decrease) in Capital Financing Requirement	(7,426)	(19,979)

14. PRIVATE FINANCE INITIATIVE SCHEMES

The Council has two Private Finance Initiative (PFI) schemes: The Quality in Community Services (QICS) PFI, signed on 21 May 2005, and the Waste Services PFI contract, signed on 29 September 2007.

a. The Quality in Community Services PFI Project

On 21 May 2005 the Council entered into a 30 year contract with Integrated Care Solutions (ICS) to supply and maintain six buildings:

- Three Resource Centres
- A Nursing Home
- A Joint Service Centre
- An Intermediate Care Hub

The contract was a Private Finance Initiative under the Capital Finance Regulations. The Council was awarded a PFI credit of £20.400m.

b. The Waste Services PFI Project

On 29 September 2007, the former Shropshire County Council, in its capacity as Contracting Authority for the former Shropshire Waste Partnership, entered into a 27 year waste contract with Veolia ES Shropshire Limited. Services under the contract commenced on 1 October 2007. On 20 October 2008 Shrewsbury & Atcham Borough Council joined the Partnership and the contract with Veolia for the remaining 26 years.

NOTES TO THE CORE FINANCIAL STATEMENTS

The contract is a Private Finance Initiative (PFI) contract and is part funded by £40.800m of PFI credits which are paid as an annual PFI grant.

There are two separable elements to the contract: a collection and recycling element and a waste treatment services element.

The collection and recycling element comprises the kerbside collections of recycling and waste, the operation of the Integrated Waste Management Facilities (comprising the household recycling centres and transfer stations) and waste treatment and disposal other than the operation of the Energy Recovery Facility. The contract is an output based contract but proposed waste infrastructure that will be used to deliver services under this element of the contract includes upgrades of the existing Craven Arms and Whitchurch recycling facilities, the development of Integrated Waste Management Facilities to service the Oswestry and Bridgnorth areas and the development of an In Vessel Composting Facility.

Two broad groups of assets are being provided under the Waste Services PFI contract:

- Vehicles and waste receptacles used to deliver the day to day waste service.
- Assets to be constructed under the contract to deliver improved recycling and diversion performance.

The value of assets held and liabilities resulting from the QICS and Waste PFI contract at each balance sheet date since the commencement of the contract and an analysis of the movements are shown below:

	QICS PFI		Waste PFI	
	Year Ended 31/03/15 £000	Year Ended 31/03/14 £000	Year Ended 31/03/15 £000	Year Ended 31/03/14 £000
Non Current Assets – Land & Buildings				
Balance Brought Forward	20,373	20,765	11,448	11,786
- Depreciation in Period	(269)	(392)	(339)	(338)
- Additions	0	0	66	2
- Revaluation	(6,407)	0	0	(2)
- Derecognition	0	0	(41)	0
Balance Carried Forward	13,697	20,373	11,134	11,448
Non Current Assets - Vehicles, Plant & Equipment				
Balance Brought Forward	0	0	2,786	4,179
- Depreciation in Period	0	0	(1,014)	(1,423)
- Additions	0	0	129	30
Balance Carried Forward	0	0	1,901	2,786
Prepayments				
Balance Brought Forward	0	0	19,383	14,268
- Planned Capital Expenditure	0	0	3,323	5,115
Balance Carried Forward	0	0	22,706	19,383
Finance Lease Liability				
Balance Brought Forward	(13,279)	(13,512)	(9,383)	(9,207)
- Additions	0	0	(195)	(32)
- Repayment of Principal	241	233	(60)	(144)
Balance Carried Forward	(13,038)	(13,279)	(9,638)	(9,383)

NOTES TO THE CORE FINANCIAL STATEMENTS

Details of Payments due to be made under PFI contracts

Year	Service Charges *	Principal	Interest #	Total Unitary Charge Payment
	(£000)	(£000)	(£000)	(£000)
Amounts Falling Due Within One Year	22,874	5,247	11,117	39,238
Amounts Falling Due Within 2 - 5 Years	85,048	15,441	47,146	147,635
Amounts Falling Due Within 6 - 10 Years	121,890	13,827	53,919	189,636
Amounts Falling Due Within 11 - 15 Years	136,812	26,212	49,452	212,476
Amounts Falling Due Within 16 - 20 Years	144,478	40,417	30,700	215,595
Amounts Falling Due Within 21 - 24 Years	4,108	2,097	406	6,611

* comprised of operating costs and lifecycle costs

comprised of finance lease interest and contingent rental

15. LEASES

Authority as a Lessee

Finance Leases

The Council has two PFI projects: the Quality in Community Services (QICS) PFI and the Waste Services PFI. The Council pays an annual unitary charge (in monthly instalments) to the contractor for the assets and services provided under each PFI contract. This annual unitary charge is comprised of two basic elements: a service element, which is expensed as incurred, and a construction element, which is accounted for as if it were a finance lease.

The Council previously held a lease for salt domes however the lease has now come to an end and so is no longer included in the finance lease figures for 2014/15.

The assets acquired under these leases are carried as Buildings and Vehicles, Plant and Equipment in the Balance Sheet at the following amounts:

	31 March 2015 £000	31 March 2014 £000
Buildings	24,831	31,821
Vehicles, Plant and Equipment (salt domes)	0	22
Vehicles, Plant and Equipment (PFI)	1,902	2,787
Total	26,733	34,630

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

NOTES TO THE CORE FINANCIAL STATEMENTS

	31 March 2015 £000	31 March 2014 £000
Finance lease liabilities (NPV of minimum lease payments)	103,241	85,394
Finance costs payable in future years	192,740	199,852
Minimum lease payments	295,981	285,246

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000
Not later than one year	16,364	3,022	5,247	725
Later than one year and not later than five years	62,588	48,323	15,441	357
Later than five years	217,030	233,901	82,553	84,313
	295,981	285,246	103,241	85,395

The finance lease liabilities recognised on the balance sheet as “Deferred Liabilities” totals £22.676m. The analysis of the deferred liability is detailed below. Further details of the QICS and Waste PFI lease values are detailed in Note 14 Private Finance Initiative Schemes.

	QICS £000	Waste £000	Total £000
Lease liability (due within 1 year)	216	5,031	5,247
Lease liability (due after 1 year)	12,822	4,607	17,429
	13,038	9,638	22,676

Operating Leases

The Council has acquired vehicles and equipment by entering into operating leases, with typical lease lengths of three to seven years. The Council also has a number of land and buildings that are held under operating leases.

The minimum lease payments due for the following financial year under non-cancellable leases committed at 31 March under operating leases years are:

	31 March 2015 £000	31 March 2014 £000
Expiring not later than one year	102	591
Expiring later than one year and not later than five years	671	370
Expiring later than five years	624	882
	1,397	1,843

The expenditure charged in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

NOTES TO THE CORE FINANCIAL STATEMENTS

	31 March 2015 £000	31 March 2014 £000
Lease payments	2,077	2,092
Sub Lease receivable	0	(47)
	2,077	2,045

Authority as Lessor

Operating Leases

The Council leases out property under operating leases for a variety of purposes, including:

- For the provision of community services.
- For economic development purposes to provide suitable affordable accommodation for local businesses.
- For income generation as Investment Properties.

The minimum lease payments due under non-cancellable leases committed at 31 March under operating leases years are:

	31 March 2015 £000	31 March 2014 £000
Expiring not later than one year	139	189
Expiring later than one year and not later than five years	708	537
Expiring later than five years	1,288	1,297
	2,136	2,023

16. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet.

	Long term		Current	
	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000
Investments:				
Loans and receivables	400	400	110,073	109,885
Total investments	400	400	110,073	109,885
Debtors:				
Loans and receivables	7,240	3,139	0	0
Financial assets carried at contract amounts	0	0	46,049	40,002
Total Debtors	7,240	3,139	46,049	40,002
Borrowing:				
Financial liabilities at amortised cost	(328,968)	(337,768)	(11,117)	(7,397)
Total Borrowings	(328,968)	(337,768)	(11,117)	(7,397)

NOTES TO THE CORE FINANCIAL STATEMENTS

	Long term		Current	
	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000
Other Long Term Liabilities:				
PFI and finance lease liabilities	(22,676)	(22,685)	0	0
Total Other Long Term Liabilities	(22,676)	(22,685)	0	0
Creditors:				
Financial liabilities carried at contract amount	(707)	(719)	(45,218)	(50,113)
Cash overdrawn	0	0	(10,131)	(17,586)
Total Creditors	(707)	(719)	(55,349)	(67,699)

The debtors figure included in the balance sheet includes payments in advance from individuals and organisations which are not considered to be financial instruments, therefore these prepayments have been excluded above. Similarly the creditors figure also includes receipts in advance which are not a financial instrument, therefore these have been excluded above. A reconciliation of the Financial Instrument figures to the Balance Sheet is provided below:

	31 March 2015 £000	31 March 2014 £000
Debtors:		
Financial assets carried at contract amounts as per Financial Instruments	46,049	40,002
Payments In Advance	26,211	28,713
Total Debtors as per Balance Sheet	72,260	68,715
Creditors:		
Financial liabilities carried at contract amount as per Financial Instruments	(45,218)	(50,113)
Receipts In Advance	(6,665)	(4,352)
Total Creditors as per Balance Sheet	(51,883)	(54,465)

Soft Loans

Small Business Loans

Shropshire Council has entered into two legal contracts with MRRT Ltd to provide funding to MRRT to be used to provide small business loans. As at the balance sheet date a total of £0.550m has been loaned to MRRT.

Valuation Assumptions

The interest rate at which the fair value of this soft loan has been made is based on the PWLB rate at point at which the loan payment is made to MRRT plus 0.5% for the Council's transactional costs.

Other Soft Loans

Following a review in this area it has been identified that interest free loans with a nominal value of £1.892m are advanced to clients receiving residential/nursing care who following assessment are required to pay the full cost of their care. As all of the clients funds are tied up

NOTES TO THE CORE FINANCIAL STATEMENTS

in the property they own, a legal charge is made against the property and when the property is sold the outstanding debts are cleared and the legal charge removed.

In addition, clients who are required to make adaptations to their homes to maintain their independence are also given interest free loans, the nominal value of these loans is £0.335m. A legal charge is again placed against the property and when the property is sold the amount of the loan is repaid and the legal charge removed.

The deferred charges loans are part of the Charging Residential Accommodation Guide (CRAG) assessment and the adaptation loans are part of Disabled Facilities Grant legislation, which means they are part of national agreements. These loans are not part of the Councils internal policies and therefore are not classified as soft loans.

Income, Expense, Gains and Losses

	2014/15			2013/14		
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Total £000
Interest expense	19,734	0	19,734	19,355	0	19,355
Total expense in Surplus or Deficit on the Provision of Services	19,734	0	19,734	19,355	0	19,355
Interest income	0	(1,815)	(1,815)	0	(856)	(856)
Interest income accrued on impaired financial assets	0	0	0	0	2	2
Total income in Surplus or Deficit on the Provision of Services	0	(1,815)	(1,815)	0	(854)	(854)
Net (gain)/loss for the year	19,734	(1,815)	17,919	19,355	(854)	18,501

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated ranges of interest rates at 31 March 2015 of 1.11% to 3.13% for loans from the PWLB, 3.19% to 3.33% for Market Loans and 0.25% to 0.84% for loans and receivables, based on new lending rates for equivalent loans at that date.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

NOTES TO THE CORE FINANCIAL STATEMENTS

The fair values calculated are as follows:

	31 March 2015		31 March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Financial liabilities	49,200	60,055	49,200	45,582
Long term creditors	288,568	354,998	293,568	309,758
PFI liabilities	22,676	40,358	22,661	53,906

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2015) arising from a commitment to pay interest to lenders below current market rates.

	31 March 2015		31 March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Loans and receivables:				
Cash	35,900	35,900	73,070	73,070
Fixed Term Deposits	74,000	74,208	36,650	36,850
Long term debtors	7,240	7,240	3,139	3,139
Long term investments	400	400	400	400

The fair value of the assets is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2015) attributable to the commitment to receive interest below current market rates.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The identification, understanding and management of risk are, by necessity, a major part of the Council's treasury management activities. The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management require the Council to manage risk in the following ways:

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- By the adoption of a Treasury Policy Statement and treasury management clauses;
- By approving annually in advance prudential and treasury indicators for the following three years;
- By approving an investment strategy for the forthcoming year.

To avoid the Council suffering loss as a result of its treasury management activities a number of risk management procedures have been put in place.

NOTES TO THE CORE FINANCIAL STATEMENTS

These procedures are based on the concept that firstly security of principal is paramount, secondly that there is a need to maintain liquidity and finally earning a rate of return commensurate with the first two concepts.

Credit Risk Exposure

Credit and counterparty risk is the failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially due to deterioration in its creditworthiness.

As a holder of public funds, Shropshire Council regards it a prime objective of its treasury management activities to be the security of the principal sums it invests. The enhancement of returns is a secondary consideration to the reduction or minimisation of risk. Accordingly, the Council ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

The main criteria for determining the suitability of investment counterparties is outlined in the Council's creditworthiness policy which is approved as part of the Annual Investment Strategy. The Council's lending list is reviewed continuously in conjunction with its treasury advisor and formally updated monthly. Additions to, and deletions from, the list are approved by the Section 151 Officer.

The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rating the maximum amount is currently limited to £30.000m.

The analysis below summarises the Council's potential maximum exposure to credit risk, based on the experience of default, adjusted to reflect current market conditions.

	Amount deposited at 31 March 2015	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2015	Estimated maximum exposure to default and uncollectability at 31 March 2015	Estimated maximum exposure at 31 March 2014
	£000	%	%	%	£000
	A	B	C	(AxC)	
Loans and receivables held with counterparties having a default rating of:					
AA	29,900	0.02	0.02	0.00	0.00
A	51,000	0.09	0.09	0.00	0.00
Other Local Authorities	29,000	0.00	0.00	0.00	0.00
Debtors (Customers)	26,658	Local Experience	Local Experience	Local Experience	Local Experience

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council generally allows its customers 30 days credit. Of the £26.658m outstanding from customers £11.561m is past its due date for payment. This amount past due date is analysed by age as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

Age of Debt	2014/15 £000	2013/14 £000
Less than 3 months overdue	2,236	4,490
3 to 6 months overdue	2,546	1,522
6 months to 1 year overdue	2,715	1,262
More than 1 year overdue	4,064	3,603
	11,561	10,877

Liquidity Risk Exposure

Liquidity risk is the risk that cash is not available when required. This can jeopardise the ability of the Council to carry out its functions or disrupt those functions being carried out in the most cost effective manner. The Council therefore has sufficient standby facilities to ensure that there is always sufficient liquidity to deal with unexpected circumstances.

As the Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the Public Works Loan Board and money markets for access to longer term funds, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourably high interest rates. The Council's strategy therefore is to ensure that no more than 15% of loans mature in any one financial year.

In addition, all of the Council's short term liquidity requirements can be satisfied through short term borrowing and bank overdraft facilities.

The maturity analysis of financial liabilities is as follows:

Age of Debt	2014/15 £000	2013/14 £000
Less than 1 year	8,861	5,061
Between 1 and 2 years	5,000	8,859
Between 2 and 5 years	16,400	17,400
Between 5 and 10 years	22,100	25,500
More than ten years	285,468	286,068
	337,829	342,888

Interest Rate Risk

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council minimises this risk by seeking expert advice on forecasts on interest rates from its Treasury Management consultants, and agreeing with them the strategy for the forthcoming year for the investment and debt portfolios. Movement of actual interest rates against these expectations is monitored continuously with advice from our treasury advisor.

The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. Interest rate exposure limits and other prudential limits are set through this

NOTES TO THE CORE FINANCIAL STATEMENTS

Strategy. The limit for variable rate debt is 50% of the total debt portfolio however the Council works to a more prudent level and maximises its exposure to 25%. As borrowings are not carried at fair value, nominal gains and losses on fixed rate borrowings do not impact on the Surplus or Deficit on the Provision of Services or other Comprehensive Income and Expenditure.

As at 31 March 2015 the Council's total outstanding debt (excluding accrued interest) amounted to £337.829m of which none of these loans were at stepped interest rates. Out of this balance £288.568m relates to fixed rate Public Works Loan Board (PWLB) loans, £49.200m relates to Lenders Option Borrower Option (LOBO) market loans, £0.061m relates to temporary loans for voluntary groups. As the LOBO loans have a call option where the lender can increase the rate of the loan at predetermined dates these loans are classified as variable rate loans. If the lender increases the interest rate on the LOBO loans at the predetermined date then the Council has the option to repay the loan in full thereby offering the potential for the Council to avoid this increase in interest payable.

The majority of the Council's investments are fixed rate deposits however, investments in Call Accounts are classified as variable rate investments. As at the end of March 2015, £35.900m was held in a Call Account.

Price Risk

The Council, excluding the pension fund, does not invest in equity shares or bonds, therefore is not exposed to losses arising from movements in share/bond prices.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies therefore the exposure to loss arising from movements in exchange rates is zero.

18. DEBTORS

These are sums of money due to the Council but unpaid at 31 March 2015.

	31 March 2015 £000	31 March 2014 £000
Central Government Bodies	7,358	5,636
Other Local Authorities	1,782	633
NHS Bodies	11,869	4,446
Public Corporations and Trading Funds	2	1
Other Entities and Individuals	28,543	38,616
Waste PFI Prepayments	22,706	19,383
	72,260	68,715

NOTES TO THE CORE FINANCIAL STATEMENTS

19. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2015 £000	31 March 2014 £000
Bank current accounts	30,900	53,070
Short term deposits with building societies	37,443	17,715
Total Cash and Cash Equivalents	68,343	70,785
Bank Overdraft	(10,131)	(17,586)
Cash Overdrawn	(10,131)	(17,586)

20. CREDITORS

These are amounts owed by the Council for work done, goods received or services rendered which had not been paid by 31 March 2015.

	31 March 2015 £000	31 March 2014 £000
Central Government Bodies	(5,695)	(5,999)
Other Local Authorities	(3,625)	(2,761)
NHS Bodies	(3,240)	(1,671)
Public Corporations and Trading Funds	(5)	0
Other Entities and Individuals	(39,318)	(44,034)
	(51,883)	(54,465)

21. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

	31 March 2015 £000	31 March 2014 £000
Usable Capital Receipts Reserve	0	0
Major Repairs Reserve	1,635	3,722
Reserves	55,027	35,119
Capital Grants Unapplied Account	3,954	2,786
HRA Balance	3,076	2,545
General Fund Balance	15,206	20,019
Total Usable Reserves	78,898	64,191

NOTES TO THE CORE FINANCIAL STATEMENTS

22. UNUSABLE RESERVES

	31 March 2015 £000	31 March 2014 £000
Revaluation Reserve	124,199	137,177
Capital Adjustment Account	602,537	622,864
Financial Instruments Adjustment Account	(5,603)	(5,900)
Deferred Capital Receipts Reserve	772	804
Pensions Reserve	(407,792)	(297,394)
Collection Fund Adjustment Account	1,259	1,365
Accumulated Absences Account	(3,211)	(3,217)
Total Unusable Reserves	312,161	455,699

Revaluation Reserve

	2014/15 £000	2013/14 £000
Balance at 1 April	137,177	165,661
Upward revaluation of assets	14,544	7,736
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(8,414)	(13,828)
Surplus or deficit on revaluation of non current assets not posted to the Surplus or Deficit on the Provision of Services	6,130	(6,092)
Difference between fair value depreciation and historical depreciation	(3,254)	(3,833)
Accumulated gains on assets sold or scrapped	(15,814)	(18,508)
Transfer balance to CAA on transfer to Investment Property	(40)	(51)
Amount written off to the Capital Adjustment Account	(19,108)	(22,392)
Balance at 31 March	124,199	137,177

Capital Adjustment Account

	2014/15 £000	2013/14 £000
Balance at 1 April	622,864	697,440
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non current assets	(39,380)	(34,370)
- Revaluation losses on Property, Plant and Equipment	(2,366)	(9,164)
- Amortisation of intangible assets	(365)	(420)
- Revenue expenditure funded from capital under statute	(12,351)	(6,996)
- Amounts of non current assets written off on disposal or sale as part of the gain/loss of disposal to the Comprehensive Income and Expenditure Statement	(68,612)	(107,971)
	(123,074)	(158,921)
Adjusting amounts written out of the Revaluation Reserve	19,108	22,392
Net written out amount of the cost of non current assets consumed in the year	(103,966)	(136,529)
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	4,435	7,567
- Use of the Major Repairs Reserve to finance new capital expenditure	6,392	1,894

NOTES TO THE CORE FINANCIAL STATEMENTS

	2014/15 £000	2013/14 £000
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	35,783	29,478
- Application of grants to capital financing from the Capital Grants Unapplied Account	704	1,656
- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	15,055	17,682
- Capital expenditure charged against the General Fund and HRA balances	3,536	2,440
	65,905	60,717
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	17,734	1,236
Balance at 31 March	602,537	622,864

Financial Instruments Adjustment Account

	2014/15 £000	2013/14 £000
Balance at 1 April	(5,900)	(6,202)
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements.	315	315
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(18)	(13)
Balance at 31 March	(5,603)	(5,900)

Pensions Reserve

	2014/15 £000	2013/14 £000
Balance at 1 April	(297,394)	(349,517)
Actuarial gains or (losses) on pensions assets and liabilities	(101,795)	59,672
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(28,732)	(32,223)
Employer's pension contributions and direct payments to pensioners payable in the year	20,129	24,674
Balance at 31 March	(407,792)	(297,394)

Deferred Capital Receipts Reserve

	2014/15 £000	2013/14 £000
Balance at 1 April	804	834
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	0
Transfer to the Capital Receipts Reserve upon receipt of cash	(32)	(30)
Write off of Deferred Capital Receipt Debt	0	0
Balance at 31 March	772	804

NOTES TO THE CORE FINANCIAL STATEMENTS

Collection Fund Adjustment Account

	2014/15 £000	2013/14 £000
Balance at 1 April	1,365	704
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(106)	661
Balance at 31 March	1,259	1,365

Accumulated Absences Account

	2014/15 £000	2013/14 £000
Balance at 1 April	(3,217)	(4,467)
Settlement or cancellation of accrual made at the end of the preceding year	3,217	4,467
Amounts accrued at the end of the current year	(3,211)	(3,217)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6	1,250
Balance at 31 March	(3,211)	(3,217)

23. CASH FLOW STATEMENT – RECONCILIATION OF NET SURPLUS / DEFICIT TO THE MOVEMENT ON REVENUE ACTIVITIES

	2014/15 £000	2013/14 £000
Surplus/(Deficit) for year per Comprehensive Income & Expenditure Statement	(33,167)	(99,012)
Adjust net surplus or deficit on the provision of services for non cash movements:		
Depreciation	39,379	34,370
Impairment and downward valuations	2,365	9,164
Amortisation	365	420
Impairment losses on loans & advances debited to surplus or deficit on the provision of services in year	23	0
Reductions in fair value of non PWLB Loans	0	12
Soft Loans – Interest adjustment	0	5
Adjustments for effective interest rates	2	0
Increase/(Decrease) in Interest Creditors	(27)	(31)
Increase/(Decrease) in Creditors	(5,315)	1,458
(Increase)/Decrease in Interest and Dividend Debtors	1	295
(Increase)/Decrease in Debtors	(3,226)	(13,980)
(Increase)/Decrease in Inventories	(28)	(256)
Pension Liability	8,603	7,549
Contributions to/(from) Provisions	2,089	(1,119)
Carrying amount of non current assets sold	68,527	107,881
Movement in Investment Property Values	(17,734)	(1,236)
	95,024	144,532
Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities:		
Carrying amount of short and long term investment sold	(2,625)	(29,645)

NOTES TO THE CORE FINANCIAL STATEMENTS

	2014/15 £000	2013/14 £000
Capital Grants credited to surplus or deficit on the provision of services	(37,655)	(30,010)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(4,978)	(8,029)
	(45,258)	(67,684)
Net Cash Flows from Operating Activities	16,599	(22,164)

24. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2014/15 £000	2013/14 £000
Interest received	(1,816)	(1,149)
Interest paid	19,736	19,381

25. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2014/15 £000	2013/14 £000
Purchase of property, plant and equipment, investment property and intangible assets	43,828	30,900
Other payments for investing activities	4,361	184
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(32)	(787)
Other receipts from investing activities*	(41,859)	(39,118)
Net cash flows from investing activities	6,298	(8,821)

* This includes capital grants received in year.

26. CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2014/15 £000	2013/14 £000
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	204	126
Repayments of short and long term borrowing	5,071	10,029
Other payments for financing activities*	13	1,183
Net cash flows from financing activities	5,288	11,338

* Represents change in value of NNDR debtor/creditor

27. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resources allocation are taken by the Council's Cabinet on the basis of budget reports analysed across service areas. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve

NOTES TO THE CORE FINANCIAL STATEMENTS

and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)

The income and expenditure of the Council's principal service areas recorded in the budget reports for the year is as follows:

Service Area Income and Expenditure 2014/15	Adults Services £000	Children's Services £000	Commissioning £000	Public Health £000	Resources & Support £000	Total £000
Fees, charges and other services income	(35,268)	(26,259)	(44,080)	(2,284)	(66,128)	(174,019)
Government grants	(226)	(159,396)	(3,786)	(10,063)	(87,851)	(261,322)
Total Income	(35,494)	(185,655)	(47,866)	(12,347)	(153,979)	(435,341)
Employee expenses	16,205	26,589	23,317	2,617	29,447	98,175
Other service expenses	93,332	208,865	102,263	10,766	107,001	522,227
Support service recharges	4,110	6,187	7,391	1,034	19,362	38,084
Total Expenditure	113,647	241,641	132,971	14,417	155,810	658,486
Net Expenditure	78,153	55,986	85,105	2,070	1,831	223,145

Service Area Income and Expenditure 2013/14	Adults Services £000	Children's Services £000	Commissioning £000	Public Health £000	Resources & Support £000	Total £000
Fees, charges and other services income	(30,872)	(29,148)	(47,121)	(2,284)	(65,628)	(175,053)
Government grants	(114)	(161,775)	(3,906)	(9,098)	(87,141)	(262,034)
Total Income	(30,986)	(190,923)	(51,027)	(11,382)	(152,769)	(437,087)
Employee expenses	19,146	30,456	30,433	1,924	39,459	121,418
Other service expenses	80,278	213,536	108,550	9,826	99,126	511,316
Support service recharges	3,752	6,424	8,186	846	16,287	35,495
Total Expenditure	103,176	250,416	147,169	12,596	154,872	668,229
Net Expenditure	72,190	59,493	96,142	1,214	2,103	231,142

Reconciliation of Service Area Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of service areas' income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2014/15 £000	2013/14 £000
Net expenditure in the Service Area Analysis	223,145	231,142
Net expenditure of services and support services not included in the Analysis	(186,679)	(156,573)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(10,567)	843
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	7,268	23,599
Cost of Services in Comprehensive Income and Expenditure Statement	33,167	99,011

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of service areas' income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2014/15					
	Service Area Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(171,965)	(17,730)	3,852	0	(185,843)
Interest and investment income	(2,054)	(40)	279	0	(1,815)
Income from council tax	0	0	0	(126,097)	(126,097)
Government grants and contributions	(261,322)	(922)	(3,852)	(130,131)	(396,227)
Total Income	(435,341)	(18,692)	279	(256,228)	(709,982)
Employee expenses	98,175	0	(6)	0	98,169
Other service expenses	487,852	8,104	(6,190)	(919)	488,847
Support Service recharges	38,084	185	0	0	38,269
Depreciation, amortisation and impairment	0	(3,092)	30,703	0	27,611
Interest Payments	34,257	2,995	(17,518)	0	19,734
Precepts & Levies	118	0	0	5,908	6,026
Payments to Housing Capital Receipts Pool	0	0	0	539	539
Gain or Loss on Disposal of Non Current Assets	0	(67)	0	64,021	63,954
Total expenditure	658,486	8,125	6,989	69,549	743,149
(Surplus) or deficit on the provision of services	223,145	(10,567)	7,268	(186,679)	33,167

2013/14 comparative figures					
	Service Area Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(172,800)	(17,250)	6,978	0	(183,072)
Interest and investment income	(2,253)	(30)	1,429	0	(854)
Income from council tax	0	0	0	(123,791)	(123,791)
Government grants and contributions	(262,034)	(850)	(6,978)	(137,630)	(407,492)
Total Income	(437,087)	(18,130)	1,429	(261,421)	(715,209)
Employee expenses	121,418	2,834	(1,241)	0	123,011

NOTES TO THE CORE FINANCIAL STATEMENTS

2013/14 comparative figures

	Service Area Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Corporate Amounts £000	Total £000
Other service expenses	473,177	5,130	7,496	(886)	484,917
Support Service recharges	35,495	174	0	0	35,669
Depreciation, amortisation and impairment	0	7,605	37,545	0	45,150
Interest Payments	38,019	2,964	(21,629)	0	19,354
Precepts & Levies	120	0	0	5,567	5,687
Payments to Housing Capital Receipts Pool	0	0	0	458	458
Gain or Loss on Disposal of Non Current Assets	0	266	0	99,709	99,975
Total expenditure	668,229	18,973	22,171	104,848	814,221
(Surplus) or deficit on the provision of services	231,142	843	23,600	(156,573)	99,012

28. TRADING OPERATIONS

The Council has 19 trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of these units with a turnover of greater than £5m in 2014/15 are as follows:

		2014/15		2013/14	
		£000	£000	£000	£000
Shire Services operates as a trading organisation within the Council, delivering catering and cleaning services. Shire Services provides catering services to schools in Shropshire, Worcestershire, Herefordshire, Telford and North Wales, as well as to a range of non-school sites in Shropshire. Cleaning services are provided to schools and other Council premises in Shropshire, including the Area Headquarters.	Turnover	(15,134)		(14,563)	
	Expenditure	15,437		15,123	
	(Surplus)/ Deficit		303		560
Shropshire County Training has operated as a trading organisation within the Council since 1 September 2004. The principal activity of County Training is the provision of training to enable people of all abilities to gain skills and qualifications required to meet the needs of the local labour market and so help employers to benefit from a better trained or more experienced work force and also to support unemployed people into sustained employment.	Turnover	(6,998)		(7,739)	
	Expenditure	7,412		8,236	
	(Surplus)/ Deficit		414		497
The consolidated results of the other 17 of the Council's 19 trading units are	Turnover	(37,046)		(41,218)	
	Expenditure	48,267		44,072	
	(Surplus)/ Deficit		11,221		2,854
Net Surplus on Trading Activities			11,938		3,911

NOTES TO THE CORE FINANCIAL STATEMENTS

29. MEMBERS' ALLOWANCES

The Council paid the following amounts to members of the council during the year.

	2014/15 £000	2013/14 £000
Basic Allowances	851	850
Special Responsibility Allowances	286	287
Expenses	68	77
Total	1,205	1,214

30. OFFICERS' REMUNERATION

The remuneration paid to the Council's senior employees is as follows:

Post Holder Information (Post Title & Name)		Salary	Expense Allowances	Total excl. pension contributions	Employers # pension contributions	Total incl. pension contributions
Chief Executive	2014/15	£99,981	£0	£99,981	£13,497	£113,478
	2013/14	£99,486	£0	£99,486	£11,640	£111,126
Director of Adult Services	2014/15	£97,485	£0	£97,485	£13,160	£110,645
	2013/14	£97,000	£0	£97,000	£11,349	£108,349
Director of Children's Services	2014/15	£97,485	£0	£97,485	£13,160	£110,645
	2013/14	£97,000	£0	£97,000	£11,349	£108,349
Director of Commissioning	2014/15	£97,485	£0	£97,485	£13,160	£110,645
	2013/14	£97,000	£0	£97,000	£11,349	£108,349
Director of Public Health	2014/15	£98,453	£0	£98,453	£13,783	£112,236
	2013/14	£98,453	£0	£98,453	£13,783	£112,236
Director of Resources and Support *	2014/15	£97,485	£0	£97,485	£13,160	£110,645
	2013/14	£97,000	£0	£97,000	£11,349	£108,349
Director of People (left May 2013)	2014/15	£0	£0	£0	£0	£0
	2013/14	£18,711	£0	£18,711	£2,189	£20,900
Head of Legal and Democratic Services, Monitoring Officer	2014/15	£96,620	£0	£96,620	£13,044	£109,664
	2013/14	£96,214	£0	£96,214	£11,257	£107,471
Head of Finance, Governance & Assurance, S151 Officer	2014/15	£95,400	£0	£95,400	£12,879	£108,279
	2013/14	£95,000	£0	£95,000	£11,115	£106,115

The Council's pension contributions have now been split between a standard percentage contribution and a lump sum for the Council. As a result the standard percentage per person has decreased and the lump sum payment cannot be allocated to specific individuals.

* An element of the total remuneration paid to the Director of Resources & Support was recharged to ip&e Ltd (£27,524) to reflect the secondment arrangement during 2014/15.

The numbers of officers whose remuneration exceeded £50,000 is analysed into bands of £5,000 as follows. The remuneration disclosed below includes salary costs, expense allowances and claims for reimbursement of expenses:

Salaried Remuneration Band £000	2014/15 No. of Employees	2013/14 No. of Employees
50,000 - 54,999	86	111
55,000 - 59,999	34	41
60,000 - 64,999	26	22
65,000 - 69,999	11	5

NOTES TO THE CORE FINANCIAL STATEMENTS

Salaried Remuneration Band £000	2014/15 No. of Employees	2013/14 No. of Employees
70,000 - 74,999	2	2
75,000 - 79,999	5	7
80,000 - 84,999	12	11
85,000 - 89,999	4	4
90,000 - 94,999	1	0
95,000 - 99,999	7	8
100,000 - 104,999	1	1
105,000 - 109,999	1	1

The numbers of exit packages with total cost per band and total cost of the exit packages, including redundancy payments, pension strain and unpaid leave are set out in the table below. The figures disclosed include exit packages for schools and the Council.

	No. of compulsory redundancies		No. of other departures agreed		Total no of exit packages by cost band		Total cost of exit packages in each band £000	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
£0 - £20,000	27	141	90	433	117	574	924	4,539
£20,001 - £40,000	2	8	23	99	25	107	701	2,970
£40,001 - £60,000	0	0	11	34	11	34	531	1,678
£60,001 - £80,000	0	1	10	13	10	14	701	976
£80,001 - £100,000	0	0	4	9	4	9	372	804
£100,001 - £200,000	0	1	4	6	4	7	453	784
	29	151	142	594	171	745	3,682	11,751

31. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors:

	2014/15 £000	2013/14 £000
Fees payable to external audit with regard to external audit services carried out by the appointed auditor	179	177
Fees payable to external audit for the certification of grant claims and returns	15	21
Fees payable in respect of other services provided by the external audit during the year	13	10
Total	207	208

32. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded by grant monies provided by the Department for Education (DfE), the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools' Budget. The Schools' Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools' Budget (ISB), which is divided into a budget share for each school.

Details of the deployment of DSG for 2014/15 are as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

	Central Expenditure £000	ISB £000	Total £000
Final DSG for 2014/15 before Academy recoupment	22,147	151,617	173,764
Academy figure recouped for 2014/15	0	(38,224)	(38,224)
Total DSG after Academy recoupment for 2014/15	22,147	113,393	135,540
Plus: Brought forward from 2013/14	1,480	183	1,663
Less: Carry forward to 2015/16 agreed in advance	(1,000)	0	(1,000)
Agreed budgeted distribution in 2014/15	22,627	113,576	136,203
In year adjustments	(767)	(235)	(1,002)
Final budgeted distribution in 2014/15	21,860	113,341	135,201
Less: Actual central expenditure	(27,579)	0	(27,579)
Less: Actual ISB deployed to schools	617	(617)	0
Early Years PVI included in ISB on S251	6,731	(6,731)	0
Plus: Local authority contribution for 2014/15	0	(106,412)	(106,412)
Carry forward to 2015/16	1,629	(419)	1,210

33. GRANT INCOME

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2014/15:

	2014/15 £000	2013/14 £000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	57,058	67,074
Local Services Support Grant	305	411
New Homes Bonus	5,913	4,581
Council Tax Freeze Grant	1,307	1,312
Business Rates Relief Grant	2,988	1,829
LACSEG Repayment	0	1,157
Efficiency Support for Sparse Areas	163	638
Capitalisation Redistribution Provision Grant	0	354
Capital Grants & contributions	28,823	25,372
Total	96,557	102,728
Credited to Services		
DWP Housing Benefit	69,060	69,062
DWP Housing Benefit & Council Tax Benefit Admin Subsidy	1,208	1,739
CLG Waste PFI	3,186	3,186
CLG Social Services PFI	1,523	1,523
EFA Dedicated Schools Grant	133,991	146,162
EFA/DE Sixth Form funding	3,080	4,552
EFA Pupil Premium Grant	7,191	5,307
EFA Education Services Grant	3,765	4,216
EFA UFSM	1,847	0
EFA PE & Sports	1,069	482
DoH Public Health Grant	9,843	8,948
DfT Local Sustainable Transport	977	968
DfT Severe Weather	0	1,129
Other Grants	8,158	7,197
Capital Grants & contributions	9,754	4,638
Total	254,652	259,109

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	31 March 2015 £000	31 March 2014 £000
Grants Receipts in Advance (Capital Grants)		
Other Grants & Contributions	(70)	(1,040)
Total	(70)	(1,040)
Grants Receipts in Advance (Revenue Grants)		
EFA Dedicated Schools Grant	(2,210)	(1,776)
CLG Tackling Troubled Families	(593)	(377)
SEN Reform	(549)	0
Homelessness	(528)	(708)
Standards Fund	(290)	0
CLG Social Services PFI	(210)	(210)
Small Business Rate Relief Grant	(195)	0
Arts Council	(190)	(350)
EFA Pupil Premium Grant	(180)	(253)
DWP Housing Benefit Subsidy	0	(4,462)
Other Grants	(1,097)	(2,492)
Total	(6,042)	(10,628)

34. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The scheme is technically a defined benefits scheme. However the Scheme is unfunded and the Department of Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2014/15, The Council paid £7.946m to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2013/14 were £8.820m and 14.1%. There were no contributions remaining payable at the year end.

Public Health employees previously employed by the NHS are covered by the provisions of the NHS Pensions Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme.

In 2014/15, The Council paid £0.106m to the NHS Pensions Scheme in respect of public health employee retirement benefits, representing 14.0% of pensionable pay. The figures for 2013/14 were £0.090m and 14.0%.

35. DEFINED BENEFIT PENSION SCHEMES

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and to disclose them at the time that employees earn their future entitlement.

The Local Government Pension Scheme, administered by Shropshire Council is a funded defined benefit scheme. This means that the Council and employees pay contributions into a fund, which is invested in accordance with the Local Government Pension Scheme Regulations.

We recognise the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund/HRA Balance via the Movement in Reserves Statement during the year.

	Local Government Pension Scheme	
	2014/15 £000	2013/14 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
- current service cost	(18,016)	(21,069)
- past service gain/(cost)	(360)	(751)
- curtailment gain/(cost)	2,083	3,516
	(16,293)	(18,304)
Financing and Investment Income and Expenditure:		
- net interest expense	(12,439)	(13,919)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	(28,732)	(32,223)
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
- return on plan assets	46,518	16,755
- experience (gain)/loss	0	12,018
- actuarial gains and losses arising on changes in demographic assumptions	(148,313)	(21,259)
- actuarial gains and losses arising on changes in financial assumptions	0	52,158
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(130,527)	27,449
Movement in Reserves Statement		
- reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	28,732	32,223
Actual amount charged against the Fund Balances for pensions in the year:		
- employers' contributions payable to scheme	(20,129)	(24,674)

NOTES TO THE CORE FINANCIAL STATEMENTS

Assets and Liabilities Recognised in the Balance Sheet

	2014/15 £000	2013/14 £000
Present value of the defined benefit obligation	(1,114,833)	(943,710)
Fair value of plan assets	707,041	646,316
Net liability arising from defined benefit obligation	(407,792)	(297,394)

Reconciliation of the Movements in the Fair Value of the Scheme Assets

	Local Government Pension Scheme	
	2014/15 £000	2013/14 £000
Opening fair value of scheme assets at 1 April	646,316	610,131
Interest income	28,255	25,496
Remeasurement gain/(loss):		
Return on plan assets excluding the amount included in the net interest expense	46,518	16,755
Contributions from employer	20,129	24,674
Contributions from employees into the scheme	5,300	5,708
Benefits paid	(37,083)	(34,400)
Other	(2,394)	(2,048)
Closing fair value of scheme assets at 31 March	707,041	646,316

Reconciliation of Present Value of the Scheme Liabilities

	Local Government Pension Scheme	
	2014/15 £000	2013/14 £000
Opening balance at 1 April	(943,710)	(959,648)
Current Service Cost	(17,595)	(20,621)
Interest Cost	(40,694)	(39,415)
Contributions from scheme participants	(5,300)	(5,708)
Remeasurement gain/(loss):		
Actuarial gains/losses arising from changes in demographic assumptions	(148,313)	(21,259)
Actuarial gains/losses arising from changes in financial assumptions	0	52,158
Other	0	12,018
Past service costs	(360)	(751)
Losses/(gains) on curtailment	(1,484)	(5,187)
Liabilities assumed on entity combinations	0	0
Benefits paid	37,083	34,400
Liabilities extinguished on settlements	5,540	10,303
Closing balance at 31 March	(1,114,833)	(943,710)

NOTES TO THE CORE FINANCIAL STATEMENTS

Local Government Pension Scheme Assets

Assets in the Shropshire County Pension Fund consist of the following categories:

	2014/15 £000	2013/14 £000
Cash and cash equivalents	21,989	15,834
Equity investments:		
UK quoted	58,260	52,998
Global quoted	309,471	300,020
Sub-total equity	367,731	353,018
Bonds:		
UK Government fixed	0	517
UK Government indexed	78,482	64,244
Government	0	90,290
PIMCO (Global Investment grade credit)	51,685	0
PIMCO (Global Absolute return bond fund)	50,271	0
Sub-total bonds	180,438	155,051
Property:		
Property funds	28,989	25,659
Sub-total property	28,989	25,659
Alternatives:		
Private Equity	29,484	27,210
Infrastructure	4,525	5,106
Hedge Funds	73,885	64,438
Sub-total alternatives	107,894	96,754
Total assets	707,041	646,316

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 is dependent on assumptions about mortality rate, salary levels and other variables.

The Council element of the Fund liabilities has been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries. Estimates for the Council element of the Fund are based on the latest full valuation of the scheme as at 31 March 2013.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2014/15	2013/14
Long term expected rate of return on assets in the scheme:		
Equity investments	6.5%	7.0%
Government Bonds	2.2%	3.4%
Other Bonds	2.9%	4.3%
Property	5.9%	6.2%
Cash/Liquidity	0.5%	0.5%

NOTES TO THE CORE FINANCIAL STATEMENTS

	Local Government Pension Scheme	
	2014/15	2013/14
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	23.8 yrs	22.4 yrs
Women	26.1 yrs	25.1 yrs
Longevity at 65 for future pensioners:		
Men	26.0 yrs	24.2 yrs
Women	29.0 yrs	27.1 yrs
Rate of inflation	2.0%	2.4%
Rate of increase in salaries	3.5%	3.9%
Rate of increase in pensions	2.0%	2.4%
Rate for discounting scheme liabilities	3.2%	4.4%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	1,136,302	1,093,364
Rate of inflation (increase or decrease by 1%)	1,134,784	1,094,882
Rate of increase in salaries (increase or decrease by 1%)	1,118,429	1,111,237
Rate of increase in pensions (increase or decrease by 1%)	1,134,784	1,094,882
Rate for discounting scheme liabilities (increase or decrease by 1%)	1,095,232	1,134,434

Techniques Employed to Manage Risk

The Shropshire County Pension Fund does not hold an Asset & Liability Matching Strategy however does use other techniques to manage risks within the Fund. The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits to pay members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. Further details of the market, credit and liquidity risk management are detailed in Note 18 of the Shropshire County Pension Fund Annual Report.

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipated to pay £18.969m expected contributions to the scheme in 2015/16.

The weighted average duration of the defined benefit obligation for scheme members is 18 years for 2014/15 (18 years 2013/14).

36. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has significant influence over the general operations of the Council, being responsible for the statutory framework within which the Council operates, provides the majority of its funding through the payment of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with Government departments appear in other parts of the Statement of Accounts.

Members and Officers

Members of the Council have direct control over the Council's financial and operating policies. Certain senior officers may also be in a position to influence policies, particularly those who form the Council's management team. All Council members and senior officers have been contacted, advising them of their obligations and asking for any declarations of related party transactions to be disclosed. Members are also asked to confirm that their entries in their Disclosure of Pecuniary Interests are correct.

The Council has made payments to a number of outside organisations on which it is represented by members. The total amount of payments to these bodies in 2014/15 was £31.773m compared with £20.474m for 2013/14.

Councillors are often members of other public or charitable organisations in their own capacity, or are employed by organisations that we process transactions with. These relationships are declared within the Members' register. The Council has made payments of

£4.790m to organisations where members are employed and £0.472m to organisations where members and senior officers occupy positions in their own capacity.

The Council also makes contract payments to bodies that members or senior officers may have a beneficial interest in. A total of £0.539m has been made in contract payments to such organisations.

Entities Controlled or Significantly Influenced by the Council

As administrator for the pension fund, the Council has control of the fund within the overall statutory framework. The Council received £0.849m from the pension fund for the costs of administration it provided in 2014/15 compared with £0.681m for 2013/14.

The Council also has group relationships with West Mercia Energy, Shropshire Towns & Rural Housing and IP&E Limited. Further detail on the type of relationship held with each company is considered in more detail under the Group Accounts section which begins on page 86.

37. CONTINGENT LIABILITIES

At 31 March 2015, the Council had the identified the following contingent liabilities:

There are a number of legal and insurance cases outstanding that may result in future costs for the Council. These include:

- A legal claim regarding a breach of contract on a land sale.
- A judicial review regarding a planning application.
- A claim around costs relating to a village green.
- Claims surrounding chancel repair liabilities.
- A judicial review relating to ShropshireLink.

The Council has provided guarantees to a number of Community Bodies that have been admitted to the Shropshire County Pension Fund, to fund any potential pension liabilities. The bodies who currently have employees who are active members of the scheme are MENCAP, Age Concern (£0.258m), ALC (£0.037m), Coverage Care (£1.438m), South Shropshire Leisure Ltd (£0.132m), South Shropshire Housing Association (£0.682m), HMM Arts (grouped with Shropshire) and Energize Shropshire Telford & Wrekin (Grouped with Shropshire). MENCAP no longer has active members, on closure they cleared their outstanding liabilities, they now have 6 pensioners and 2 deferred members. Age Concern has 9 active members, 21 pensioners and 13 deferred members; ALC has 2 active members, 1 pensioner and 1 deferred member. The guarantee for Coverage Care Ltd covers staff Tupe'd to them in a contract entered into 1 March 1997, they have 20 active members, 120 pensioners, 40 deferred members and 6 dependants. Coverage Care also entered into a further contract on 13 January 2013, in which the staff Tupe'd over from Shropshire Council, they have 37 active members, 7 deferred members and 4 pensioners. South Shropshire District Council offered a guarantee to South Shropshire Leisure Ltd and South Shropshire Housing Association which transferred to Shropshire Council on 1 April 2009. These Employers have jointly 29 active members, 15 pensioners, 24 deferred members and 2 dependant. HMM Arts have 1 active member, 3 deferred members and 1 pensioner. The guarantee for Energize Shropshire Telford & Wrekin covers staff Tupe'd to them on 1 January 2013, they have 2 active members. These do not

NOTES TO THE CORE FINANCIAL STATEMENTS

therefore represent a significant potential liability for the Council. The Council has also provided guarantees to ip&e (Group) Ltd and Shropshire Towns & Rural Housing within the Shropshire County Pension Fund to fund any potential pension liabilities.

The Council has entered into four “Funding and Development Agreements” with a Development Trust for construction of supported living properties. Under these agreements the Development Trust has provided the Council with funding totalling £1.027m for the construction of a supported living property at each site. The contributions will be repayable if the properties cease to be used as supported living properties or the Council fails to conform to the stipulated conditions of the contract within a period of 30 years from when the properties are first occupied. The Council has also applied funding to a further site under construction at Market Drayton. Total funding anticipated for this scheme is £1.470m and the costs incurred to date of £1.116m have been included as a capital debtor in the balance sheet.

The Council has made a provision for NDR Appeals based upon its best estimates of the actual liability as at the year-end in known appeals. It is not possible to quantify appeals that have not yet been lodged with the Valuation Office so there is a risk to the Council that national and local appeals may have a future impact on the accounts.

38. CONTINGENT ASSETS

The Council currently has a number of appeals lodged with HMRC with regard to VAT treatment which may result in a reimbursement to the Council of VAT paid over to the Government. The specific cases include a compound interest claim, claims for postal services, car parking, landfill and a cultural exemption. These claims for reimbursement are subject to legal cases being pursued nationally and if successful will provide legal precedent to be applied. Timescales on these cases are uncertain but should be progressed in the next 12-24 months.

39. TRUST ACCOUNTS

Funds held in Trust Accounts are not available for the Council's use. The Council supports the work of a number of trusts including:

Trust	Purpose	Income £	Expenditure £	Assets £	Liabilities £
Shropshire Youth Foundation	Supports the development of under 25 year old residents in Shropshire through their leisure time activities.	(24,143)	10,604	235,419	0
Shropshire Schools Jubilee Trust	General fund to support the learning needs of children and young people either living or studying in Shropshire.	(4,152)	1,160	147,630	0
Rosalie Inskip Music Trust	Supports excellence in music for young people living in Shropshire.	(9,892)	4,250	281,696	0
Priory Educational Trust	Charitable trust to support ex-pupils of Priory Boys School.	(1,073)	1,550	49,761	0
Lyneal Trust	A charity that offers canal and canal	(44,047)	44,741	461,893	(6,489)

NOTES TO THE CORE FINANCIAL STATEMENTS

Trust	Purpose	Income £	Expenditure £	Assets £	Liabilities £
	side holidays for people with disabilities, their family and friends.				
Sight Loss Shropshire	A charity that helps and supports blind and visually impaired people in Shropshire and Telford & Wrekin	(49,261)	44,809	505,745	(3,725)

Accounts are prepared and published for these organisations, Shropshire Council is not the only trustee and turnover is not material.

Trusts deliver great benefit into the local community and make a valuable contribution but the Council itself does not derive benefit from them.

Section 6

Group Accounts

Introduction

This document presents the statutory financial statements for the Shropshire Council Group for the period from 1 April 2014 to 31 March 2015. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases it has created separate companies with its partners to deliver those services. The use of separate companies mean that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture. A review of all of the Council's relationships with other bodies has been carried out to consider whether it is appropriate to prepare full group accounts. The transactions involved are not considered material to the Council's accounts however the Council has decided to provide a full disclosure in terms of bodies that it has a relationship with.

The single entity accounting policies detailed on pages 21-40 have been adopted and applied for group account purposes.

The pages which follow contain the Group's Financial Statements for the year ended 31 March 2015, with comparative figures for the previous financial year.

IP&E LIMITED

IP&E Limited is a trading company wholly owned by Shropshire Council. It has been established to provide public services on the council's behalf and will also be able to trade with other organisations. The company was incorporated on 30 May 2012.

IP&E Limited has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. Figures have been consolidated based on the draft statement of accounts for 31st March 2015. For 2014/15 IP&E Limited had total income of £1.162m, total expenditure of £1.134m, assets of £0.415m and liabilities of £1.035m.

SHROPSHIRE TOWNS & RURAL HOUSING LIMITED

Shropshire Towns and Rural Housing Limited (the Company) is a private company limited by guarantee wholly owned by Shropshire Council (the Council). The Company was formed as an Arm's Length Management Organisation under Section 27 of the Housing Act 1985 to undertake the management and maintenance of Shropshire Council's retained housing stock from 1st April 2013.

Shropshire Towns and Rural Housing Limited has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27

(Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. For 2014/15 Shropshire Towns and Rural Housing Limited had total income of £17.294, total expenditure of £16.751m, assets of £3.397m and liabilities of £4.126m.

WEST MERCIA ENERGY

West Mercia Energy (WME) is a Purchasing Consortium that was established as a Joint Committee under s101 of the Local Government Act 1972. Shropshire Council is one of four constituent Authorities, the other three Councils are Worcestershire County Council, Herefordshire Council and the Telford & Wrekin Council.

Shropshire Council has reviewed in detail the accounting treatment that should be applied to WME within this Council. The Council considers that WME should be accounted for as a Joint Venture (under IFRS11 - Joint Arrangements and IAS 28 – Investments in Associates and Joint Ventures) with specific regard to the independence that West Mercia Energy has to pursue its own commercial strategy in buying and selling and has access to the market in its own right for its main inputs and outputs.

Shropshire's share of West Mercia Energy's balances is 26.0%. The company has been incorporated into the Group Accounts using the Equity method. Figures have been consolidated based on the draft unaudited statement of accounts for 31st March 2015. For 2014/15 West Mercia Energy had total income of £71.006m, total expenditure of £70.920m, assets of £16.323m and liabilities of £18.986m.

GROUP ACCOUNTS

Group Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Balance at 31 March 2014	20,019	35,119	2,545	3,722	2,786	64,191	455,699	519,890	(568)	519,322
Movement in reserves during 2014/15										
Surplus or (deficit) on the provision of services	(27,225)	0	10,567	0	0	(16,659)	0	(16,659)	(15,914)	(32,572)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	(95,664)	(95,664)	(2,090)	(97,754)
Total Comprehensive Income and Expenditure	(27,225)	0	10,567	0	0	(16,659)	(95,664)	(112,323)	(18,003)	(130,326)
Adjustments between Group Accounts and authority accounts	(16,508)	0	0	0	0	(16,508)	0	(16,508)	16,529	21
Net Increase/Decrease before Transfers	(43,734)	0	10,567	0	0	(33,167)	(95,664)	(128,831)	(1,474)	(130,305)
Adjustments between accounting basis and funding basis under regulations	58,829	0	(10,036)	(2,087)	1,168	47,874	(47,874)	0	0	0
Net Increase/Decrease before Transfers to Earmarked Reserves	15,095	0	531	(2,087)	1,168	14,707	(143,538)	(128,831)	(1,474)	(130,305)
Transfers to/from Earmarked Reserves	(19,908)	19,908	0	0	0	0	0	0	0	0
Increase/Decrease in 2014/15	(4,813)	19,908	531	(2,087)	1,168	(1,801)	(143,538)	(145,339)	(1,474)	(130,305)
Balance at 31 March 2015	15,206	55,207	3,076	1,635	3,954	78,898	312,161	391,059	(2,043)	389,017

GROUP ACCOUNTS

(Restated)	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Balance at 31 March 2013	11,528	42,989	1,041	1,402	3,909	60,869	504,453	565,322	(759)	564,563
Movement in reserves during 2013/14										
Opening Transactions with owner	(793)	0	0	0	0	(793)	0	(793)	0	(793)
Surplus or (deficit) on the provision of services	(88,043)	0	(844)	0	0	(88,887)	0	(88,887)	(9,957)	(98,844)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	53,580	53,580	781	54,361
Total Comprehensive Income and Expenditure	(88,836)	0	(844)	0	0	(89,680)	53,580	(36,100)	(9,175)	(45,276)
Adjustments between Group Accounts and authority accounts	(9,332)	0	0	0	0	(9,332)	0	(9,332)	9,366	34
Net Increase/Decrease before Transfers	(98,168)	0	(844)	0	0	(99,012)	53,580	(45,432)	190	(45,242)
Adjustments between accounting basis and funding basis under regulations	98,793	0	2,344	2,320	(1,123)	102,334	(102,334)	0	0	0
Net Increase/Decrease before Transfers to Earmarked Reserves	625	0	1,500	2,320	(1,123)	3,322	(48,754)	(45,432)	190	(45,242)
Transfers to/from Earmarked Reserves	7,866	(7,870)	4	0	0	0	0	0	0	0
Increase/Decrease in 2013/14	8,491	(7,870)	1,504	2,320	(1,123)	3,322	(48,754)	(45,432)	190	(45,242)

GROUP ACCOUNTS

Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures £000	Total Authority Reserves £000
Purchase of goods and services from subsidiaries	16,508	0	0	0	16,508	0	16,508	(16,529)	(21)
Total adjustments between Group Accounts and authority accounts	16,508	0	0	0	16,508	0	16,508	(16,529)	(21)

GROUP ACCOUNTS

The Group Comprehensive Income & Expenditure Statement

2013/14 (Restated) Group Expenditure £000		SC Net Expenditure £000	2014/15 Adjustments £000	Group Expenditure £000
	Expenditure on Continuing Services			
76,183	Adult Social Care	72,166	0	72,166
6,605	Central Services to the public	5,311	475	5,786
55,539	Children's and Education Services	54,281	0	54,281
20,986	Cultural and Related Services	14,305	0	14,305
27,311	Environmental and Regulatory Services	31,630	0	31,630
30,152	Highways and Transport Services	28,100	0	28,100
(1,831)	Local Authority Housing (HRA)	(12,697)	(553)	(13,250)
5,973	Other Housing Services	4,608	0	4,608
7,584	Planning Services	5,404	0	5,404
93	Public Health	(615)	0	(615)
5,078	Corporate and Democratic Core	4,575	0	4,575
(1,608)	Non Distributed Costs	(485)	0	(485)
232,066	Net Cost of Services	206,583	(78)	206,505
106,374	Other Operating Expenditure	70,519	0	70,519
33,098	Financing and Investment Income and Expenditure	23,737	18	23,755
(272,174)	Taxation and Non Specific Grant Income	(267,672)	0	(267,672)
99,364	(Surplus)/Deficit on the provision of services	33,167	(60)	33,107
(521)	Associates & Joint Ventures Accounted for on an equity basis	0	(534)	(534)
98,843	Group (Surplus)/Deficit	33,167	(594)	32,572
2,093	(Surplus) or deficit on revaluation of non-current assets	(9,354)	0	(9,354)
3,999	Impairment losses on Non Current Assets Charged to the Revaluation Reserve	3,223	0	3,223
(60,453)	Remeasurement of pension assets and liabilities	101,795	2,090	103,885
(54,361)	Other Comprehensive Income and Expenditure	95,664	2,090	97,754
44,482	Total Comprehensive Income and Expenditure	128,831	1,495	130,326

GROUP ACCOUNTS

Group Balance Sheet at 31 March 2015

31 March 2014 (Restated) £000		SC £000	31 March 2015 Adjustments £000	Group £000
1,062,227	Property, Plant & Equipment	995,904	8	995,912
2,475	Heritage Assets	2,592	0	2,592
28,878	Investment Property	47,673	0	47,673
807	Intangible Assets	432	15	447
1,519	Assets Held for Sale	599	0	599
1,095,906	Total Non Current Assets	1,047,200	23	1,047,222
400	Long Term Investment	400	0	400
(385)	Investments in Associates and Joint Ventures	0	(693)	(693)
3,048	Long Term Debtors	7,240	(92)	7,147
1,098,969	Total Long Term Assets	1,054,840	(763)	1,054,077
	Current Assets			
0	Current Held for Sale Investment Properties	125	0	125
0	Assets Held for Sale	3,635	0	3,635
39,100	Short Term Investments	41,730	0	41,730
981	Inventories	994	22	1,016
68,158	Short Term Debtors	72,260	(723)	71,537
72,405	Cash & Cash Equivalents	68,343	2,734	71,077
180,643	Total Current Assets	187,087	2,033	189,120
1,279,613	Total Assets	1,241,927	1,271	1,243,197
	Current Liabilities			
(17,586)	Bank Overdraft	(10,131)	0	(10,131)
(7,397)	Short Term Borrowing	(11,117)	0	(11,117)
(55,186)	Short Term Creditors	(51,883)	(795)	(52,678)
(4,492)	Provisions	(3,585)	0	(3,585)
(10,628)	Grants Receipts in Advance - Revenue	(6,042)	0	(6,042)
(1,040)	Grants Receipts in Advance - Capital	(70)	0	(70)
(96,329)	Total Current Liabilities	(82,828)	(795)	(83,623)
1,183,284	Total Assets Less Current Liabilities	1,159,099	476	1,159,575
	Long Term Liabilities			
(719)	Long Term Creditors	(707)	0	(707)
(337,768)	Long Term Borrowing	(328,968)	0	(328,968)
(22,685)	Other Long Term Liabilities	(22,676)	0	(22,676)
(297,889)	Pensions Liability	(407,792)	(2,518)	(410,310)
(4,901)	Provisions	(7,897)	0	(7,897)
(663,962)	Total Long Term Liabilities	(768,040)	(2,518)	(770,558)
519,322	Total Assets Less Liabilities	391,059	(2,042)	389,017
	Financed by:			
65,112	Usable Reserves	78,898	1,211	80,109
454,210	Unusable Reserves	312,161	(3,253)	308,908
519,322	Total Reserves	391,059	(2,042)	389,017

GROUP ACCOUNTS

Group Cash Flow Statement

2013/14 (Restated) Group £000	Revenue Activities	2014/15		
		SC £000	Adjustments £000	Group £000
98,843	Net (surplus) or deficit on the provision of services	33,167	(604)	32,563
(144,690)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(95,024)	(163)	(95,187)
66,744	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	45,258	131	45,389
20,897	Net cash flows from operating activities	(16,599)	(636)	(17,235)
(8,756)	Investing activities	6,298	0	6,298
10,920	Financing activities	5,288	(475)	4,813
23,061	Net (increase) or decrease in cash and cash equivalents	(5,013)	(1,110)	(6,124)
77,880	Cash and cash equivalents at the beginning of the reporting period	53,199	1,620	54,819
54,819	Cash and cash equivalents at the end of the reporting period	58,212	2,731	60,944

GROUP ACCOUNTS

Notes to Group Accounts

G1. Consolidation of West Mercia Energy

Figures in respect of West Mercia Energy have been consolidated using the equity method. The amounts included in the Group Comprehensive Income and Expenditure Statement are:

	WME £000	SC Share (26.0%) £000
Turnover	(71,006)	(18,472)
Cost of Goods Sold and Operating Expenses	68,952	17,938
Interest and Investment Income	144	37
Net Operating Surplus	(1,910)	(497)
Distribution of Surplus to Member Authorities	1,824	475
NET SURPLUS FOR THE YEAR	(86)	(22)

G2. Consolidation of Shropshire Towns & Rural Housing Limited

The operating income (£17.294m) and expenditure (£16.741m) of Shropshire Towns & Rural Housing Limited, giving a net income of £0.553m has been included within Local Authority Housing (HRA) in the Net Cost of Services. The inter-company transactions with Shropshire Council have been excluded from Local Authority Housing (HRA) (Income/Expenditure £16.731m).

G4. Consolidation of IP&E Ltd

The operating income (£1.162m) and expenditure (£1.124m) of IP&E Limited, giving a net income of £0.038m has been included within Surpluses/deficits on Trading Activities. The inter-company transactions with Shropshire Council have been excluded from Surpluses/deficits on Trading Activities (Income/Expenditure £0.875m).

G5. Long Term Investment included in Group Balance Sheet.

	WME £000	SC Share (26.0%) £000
Assets	16,323	4,246
Liabilities	(18,986)	(4,939)
Investments in Associates and Joint Ventures	(2,663)	(693)

Section 7

**Pension Fund
Accounts**

ANNUAL REPORT AND ACCOUNT OF THE SHROPSHIRE COUNTY PENSION FUND

SHROPSHIRE FUND INFORMATION:



Fund value increase
over the year



Is the Fund value as
at 31 March 2015



Outperforming
benchmark by 1.4%

The Shropshire Fund benefited from positive investment returns in a number of asset classes. The strongest returns were experienced in Infrastructure where the Fund's investments increased in value by a notable 40% in the year. The Fund has also achieved strong returns in Global Equities managed by Investec and MFS which delivered an investment return of 21.2% and 19.6% respectively. Returns in Private Equity were also positive earning 18.6%. The Funds allocation to Index Linked Bonds increased by 21.1%. Hedge Funds delivered a return of 5.9% and Property 5.5%. None of the Fund's managers delivered negative returns over the last year.

The Pensions Committee determine the strategic asset allocation for the Fund. This outlines the proportion of assets that the Fund invests in equities, bonds and alternative assets such as property. This is the most important decision that the Committee makes because it has the biggest impact on the long term returns of the Fund.

The Pensions Committee undertakes thorough monitoring of the Fund's investment managers and is prepared to make changes in response to investment underperformance or new investment opportunities. In April 2014 the Fund reduced its allocation in global government bonds by 5% by terminating the contract with Strategic and increasing the allocation to absolute return bonds (2.5%) and investment grade credit corporate bonds (2.5%) managed by PIMCO due to the excess yields available compared to Government Bonds. There were no other Fund manager changes during the financial year.

During 2014/15, the Committee together with Officers and Aon Hewitt have been reviewing the Fund's investment strategy. This included building a greater understanding of the Fund's investment risk relative to its liabilities. A number of potential improvements to the investment strategy were reviewed and two recommendations have now been approved.

In March 2015, the 7.5% allocation to Investment Grade Bonds managed by PIMCO was reviewed. This was due to strong returns being generated since 2009 but the future outlook for Investment Grade Bonds now appears limited by low yields, low credit spreads and declining liquidity. All of this allocation is due to be replaced by more Unconstrained Bond Funds during 2015/16 which will provide further diversification within the Fund and improve

PENSION FUND ACCOUNTS

the Fund's risk adjusted returns going forward. The defining feature of unconstrained strategies is the flexibility in their approach to asset allocation and security selection within the global bond universe, which can offer better returns and more downside protection.

It was also agreed at Pension Committee in March 2015 to commence the appointment process for a Liability Driven Investment (LDI) manager to replace the existing holding in Index Linked Gilts. The present value of the Fund's liabilities, as measured by the Fund's Actuary, will increase if long term gilt yields (interest rates) fall and if long term inflation rises. If this is not matched by a corresponding rise in the Fund's asset value then the overall funding level will fall. The current investment strategy has a 10% allocation to index-linked gilts which will move in a similar way to the liabilities as interest rates and inflation changes. By appointing an LDI manager it would enable the Fund to more efficiently match its assets to the interest rate and inflation movements of its liabilities by either increasing the level of liability matching while maintaining the allocation to growth assets or achieve the same level of liability matching while increasing the allocation to growth assets. It is expected that these appointments will provide further diversification of returns, improve the efficiency of the Fund's matching assets, specifically to match the movement of the Fund's liabilities caused by interest rates and inflation, independent of the allocation to return seeking assets and will help maintain the high standards expected from Shropshire's investment managers.

The Fund undergoes an independent actuarial valuation every 3 years. The latest actuarial valuation was conducted at the end of March 2013, identifying that the Fund had a funding level (the relationship between estimated future pension payments and the funds held to pay for these pensions) of 76%. The next actuarial valuation is being undertaken in March 2016 and the results will be known in November 2016.

As a local government pension scheme the Fund is able to take a long term view to the recovery of any funding deficit and is able to phase in any changes in the employer contribution rate in a manageable way. Whilst there is a lot written in the press about gold plated public sector pensions the reality is very different. The average pension paid from the Shropshire Fund last year was £4,400.

Since the LGPS changed to a Career Average Revalued Earnings Scheme (CARE) on the 1 April 2014, the Pension Administration Team have been working hard to ensure successful implementation of the new regulations for its Members and Employers. The introduction of the CARE scheme has brought with it additional data that employers must hold for its employees in the LGPS and significant work has been undertaken by the Pension Administration Team to communicate and support employers in the changes.

A series of training sessions were held throughout 2014/15 including an employer's meeting in January 2015 covering in detail the data requirements in the LGPS since the introduction of CARE. To help employers meet its responsibilities the Fund has invested in middleware to improve the flow of data between employers and the Fund.

Work has also been undertaken to ensure Scheme Members have been kept up to date with the latest LGPS news including how benefit accrual works in the CARE scheme and the changes in the Governance Regulations with the introduction of the Pensions Board.

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2015

2013/14 £000		2014/15 £000
	Income	
	Contributions	
(45,077)	Employers (Note 8)	(44,657)
(13,660)	Employees (Note 8)	(14,134)
(3,213)	Transfers In from other pension funds (Notes 3, 8)	(4,339)
(61,950)	Total Income	(63,130)
	Expenditure	
	Benefits Payable	
47,094	Pensions (Note 8)	51,090
10,528	Commutation of pensions and lump sum retirement benefits (Note 8)	10,842
1,365	Lump Sums (Note 8)	1,202
8	Refund of contributions (Note 8)	81
3,299	Transfers to other funds (Note 3, 8)	4,312
62,294	Total Expenditure	67,527
344	Net additions from dealings with scheme members	4,397
11,688	Management Expenses	13,764
	Returns on Investments	
(19,823)	Investment Income (Note 3, 7, 14, 15)	(19,248)
(26,860)	(Gain)/loss on cash and currency hedging (Note 12, 13)	(16,767)
195	Taxes on Income (Note 6)	20
(70,022)	Profits and losses on disposal of investments and changes in value of investments (Note 11)	(155,698)
(116,510)	Net (increase) / decrease in the net assets available for benefits during the year	(191,693)
(104,478)	(Surplus) / deficit on the pension fund for the year	(173,532)
1,234,725	Opening net assets of the scheme	1,339,203
1,339,203	Closing net assets of the scheme	1,512,735

PENSION FUND ACCOUNTS

PENSION FUND NET ASSET STATEMENT AS AT 31 MARCH 2015

31 March 2014		31 March 2015	
£000		£000	%
	Investment Assets		
	Fixed Interest Securities		
61,798	Public Sector Bonds	0	0.00
207,853	Equities	228,604	15.11
	Pooled Investment Vehicles (Note 11a)		
131,773	Unitised Investment Vehicles	159,821	10.56
912,315	Other Managed Funds	1,082,132	71.53
	Derivative Contracts (Note 11a)		
16	Futures (Note 13)	0	0.00
637	Forward Foreign Exchange (Note 12)	0	0.00
	Cash Deposits		
4,916	Margin Balances	0	0.00
22,241	Deposits	39,915	2.64
2,650	Temporary Investments (Note 26)	3,380	0.22
1,344,199		1,513,852	100.06
	Investment Liabilities		
	Derivatives		
(10)	Futures (Note 13)	0	0.00
(5)	Forward Foreign Exchange (Note 12)	0	0.00
	Other Financial Liabilities		
(4,959)	Margin Balances	0	0.00
1,339,225	Net Investment Assets		
	Current Assets		
2,722	Contributions due from Employers (Note 19)	2,044	0.14
2,156	Other Current Assets (Note 19)	1,288	0.09
38	Cash Balances (Note 26)	20	0.00
	Current Liabilities		
(1,800)	Unpaid Benefits (Note 20)	(505)	(0.03)
(3,138)	Other Current Liabilities (Note 20)	(3,964)	(0.26)
1,339,203	Net Assets of the Scheme - Available to Fund Benefits as at 31 March	1,512,735	100.00

NOTES TO THE SHROPSHIRE COUNTY PENSION FUND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2015

1. DESCRIPTION OF FUND

The Shropshire County Pension Fund is part of the Local Government Pension Scheme and is administered by Shropshire Council. The Council is the reporting entity for this Pension Fund.

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

It is a contributory defined pension scheme administered by Shropshire Council to provide pensions and other benefits for pensionable employees of Shropshire Council and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the Shropshire County Pension Fund Committee, which is a committee of Shropshire Council.

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Shropshire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 138 employers within the Shropshire County Pension Fund including Shropshire Council itself, as detailed below.

Shropshire County Pension Fund	31 March 2015	31 March 2014
Number of employers with active members	99	126
Number of employees in the scheme		
Shropshire Council	7,166	7,376
Other employers	8,980	8,041
Total	16,146	15,417
Number of pensioners in the scheme		
Shropshire Council	4,686	4,476
Other employers	4,723	4,494
Total	9,409	8,970

PENSION FUND ACCOUNTS

Shropshire County Pension Fund	31 March 2015	31 March 2014
Number of deferred pensioners in the scheme		
Shropshire Council	7,265	6,857
Other employers	2,461	6,812
Total	14,449	13,669

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was as at 31 March 2013. Currently, employer contribution rates range from 5.4% to 28.0% of pensionable pay.

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service as summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 X final pensionable salary	Each year worked is worth 1/60 X final pensionable salary
Lump Sum	Automatic lump sum of 3x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate. Employers deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set out by the scheme actuary or on receipt if earlier than the due date. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Transfers to and from other schemes

Transfer values represent amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see note 8). Individual transfers in/out are accounted when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (see note 8). Bulk (group) transfers are included for on an accruals basis in accordance with the terms of the transfer agreement.

Investment Income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is also disclosed in the net assets statement as a current financial asset.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profit/losses during the year.

Fund account – expense items

Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and is therefore exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises and in 2014/15 this figure is £20,274.

Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition, the Fund has negotiated with several managers that an element of their fee will be performance related. Performance related fees were £3.928m in 2014/15 (2013/14 £3.639m). The cost of obtaining investment advice from consultants is also included in investment managers expenses.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2014/15, £0.013m of fees is based on such estimates (2013/14 £0.006m).

Net Assets Statement

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the day the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined as follows:

- Market quoted investments are valued by the bid market price ruling on the final day of the accounting period.
- Fixed interest securities are recorded at net market value based on their current yields.
- Investments in private equity funds are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial

statements published by the respective fund manager in accordance with the guidelines set out by the British Venture Capital Association.

- Investments in infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published. If single priced they are valued at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of withholding tax.
- Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.
- Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.
- The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.
- Shropshire County Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. Please see note 22 for further information.

4. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers set out by the British Venture Capital Association.

The pension fund liability is calculated every three years by the Fund Actuary. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. ASSUMPTIONS MADE ABOUT ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement as at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

PENSION FUND ACCOUNTS

Item	Uncertainties	Effect if actual results differ from assumptions
Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £64.3 million. There is a risk that this investment may be under or overstated in the accounts.
Hedge Funds	The fund of funds is valued at the sum of the fair values provided by the Administrators of the underlying funds plus any adjustments deemed necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £154.4 million. There is a risk that these investments may be under/over - overstated in the accounts.

6. EVENTS AFTER THE BALANCE SHEET DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. There have been no events between 31 March 2015 and when these accounts were authorised that require any adjustments to be made.

7. ANALYSIS OF THE MAIN REVENUE ACCOUNT TRANSACTIONS

The following table provides further analysis of contributions received and benefits paid between the Administering Authority (Shropshire Council), Designated Bodies and Scheme Employers (Unitary, Town and Parish Councils) and Admission Bodies (Private bodies carrying out former Local Government functions or bodies providing a public service on a non-profit making basis).

2014/15	Administering Authority	Admission Bodies	Designation Bodies/Scheme Employers	Total
	£000	£000	£000	£000
<u>Contribution Received</u>				
Employees	(5,306)	(2,269)	(6,559)	(14,134)
Employers	(18,732)	(7,154)	(18,771)	(44,657)
Transfers In	(1,143)	(2,012)	(1,185)	(4,339)
Total Income	(25,180)	(11,435)	(26,515)	(63,130)
<u>Payments Made</u>				
Pensions	31,725	5,806	13,559	51,090
Lump Sums	5,643	1,796	3,404	10,843
Death Benefits	454	129	618	1,201
Refunds	44	3	33	80
Transfers Out	1,730	762	1,821	4,313
Total Expenditure	39,596	8,496	19,435	67,527

PENSION FUND ACCOUNTS

2013/14 comparative figures	Administering Authority	Admission Bodies	Designation Bodies/Scheme Employers	Total
	£000	£000	£000	£000
<u>Contribution Received</u>				
Employees	(5,652)	(2,021)	(5,987)	(13,660)
Employers	(22,600)	(6,030)	(16,447)	(45,077)
Transfers In	(716)	(1,027)	(1,470)	(3,213)
Total Income	(28,968)	(9,078)	(23,904)	(61,950)
<u>Payments Made</u>				
Pensions	29,362	5,367	12,365	47,094
Lump Sums	6,032	1,607	2,889	10,528
Death Benefits	683	68	614	1,365
Refunds	8	0	0	8
Transfers Out	1,794	378	1,127	3,299
Total Expenditure	37,879	7,420	16,995	62,294

This table breaks down the employers contributions amount of £44.657m from the above table.

	2014/15 £000	2013/14 £000
Employers normal contributions	30,860	28,583
Employers deficit contributions	10,639	10,088
Employers augmentation contributions	3,158	6,407
	44,657	45,078

8. MANAGEMENT EXPENSES

This analysis of the costs of managing the Shropshire County Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses above includes £3.928m (2013/14 £3.639m) in respect of performance related fees paid to Fund investment managers. It also includes £1.245m in respect of transaction costs (2013/14 £1.0m). The £1.0m of transaction costs in 2013/14 was identified during a separate exercise, however, the 2013/14 accounts have not been restated.

	2014/15 £000	2013/14 £000
Administrative costs	785	949
Investment management expenses	12,451	9,720
Oversight and governance costs	528	1,019
	13,764	11,688

PENSION FUND ACCOUNTS

9. INVESTMENT INCOME

The table below analyses the investment income received by the Fund (mostly in the form of dividends) over the last 12 months. There has, again, been a reduction in equity dividends due to the restructure of the Fund in September 2013 when several equity manager contracts were terminated. This year is the first full year of this effect.

	2014/15 £000	2013/14 £000
Interest from Fixed Interest Securities	(422)	(1,029)
Dividends from equities	(6,229)	(10,797)
Income from pooled investment vehicles	(934)	(1,474)
Interest on cash deposits	(25)	(17)
Other	(8,233)	(6,506)
	(15,843)	(19,823)

10. TAXES ON INCOME

This table breaks down the taxes on income by asset class.

	2014/15 £000	2013/14 £000
Withholding tax – Fixed interest securities	0	1
Withholding tax - equities	8	170
Withholding tax - pooled	12	24
	20	195

11. INVESTMENT EXPENSES

Each external Investment Manager receives a fee for their services based on the market value of the assets they manage on the Funds behalf. Active managers are required to produce a specific target return in excess of their benchmark return and are paid a performance related fee (over and above a basic fee) for reaching required levels of outperformance. The management fees disclosed also include all investment management fees directly incurred by the Fund by pooled fund investments.

	2014/15 £000	2013/14 £000
Management Fees	12,359	10,344
Custody Fees	92	232
	12,451	10,576

12. ADMINISTRATION EXPENSES

The costs incurred by the Council in administering the Fund totalled £0.784 million for the year ended 31 March 2015 (2013/14 £0.938m). Due to the issue of the CIPFA guidance on management costs this table has been updated to show the costs included within administration which excludes some costs now categorised within oversight and governance.

PENSION FUND ACCOUNTS

	2014/15 £000	2013/14 £000
Employee costs	525	478
IT	129	316
Printing & Postage	60	60
Office Accommodation	22	6
Subscriptions	22	28
Other Costs	26	38
	784	949

13a. RECONCILIATION OF MOVEMENTS IN INVESTMENTS & DERIVATIVES

Investment type	Value as at 1 April		Purchases at cost & derivative payments		Sale proceeds & derivative receipts		Transition		Other cash transactions		Change in market value		Value as at 31 March	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
2014/15														
Fixed Interest Securities – Public Sector	61,798		3,643		(65,380)		0		0		(61)		0	
Equities	207,853		89,382		(88,852)		0		0		20,221		228,604	
Pooled Investment Vehicles – Unitised Investment Vehicles	131,773		0		0		0		0		28,048		159,821	
Pooled Investment Vehicles – Other Managed Funds	912,315		116,035		(54,321)		0		0		108,102		1,082,132*	
Derivative contracts	638		0		(21)		0		0		(617)		0	
Sub total	1,314,377		209,060		(208,574)		0		0		155,693		1,470,557	
Cash deposits – with Managers	22,241		0		0		0		17,669		5		39,915	
Cash deposits – margin balances	(43)		0		0		0		43		0		0	
Temporary Investments	2,650		0		0		0		730		0		3,380	
Total	1,339,225		209,060		(208,574)		0		18,442		155,698**		1,513,852	

Investment type	Value as at 1 April		Purchases at cost & derivative payments		Sale proceeds & derivative receipts		Transition		Other cash transactions		Change in market value		Value as at 31 March	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
2013/14 comparative figures														
Fixed Interest Securities – Public Sector	47,748		134,695		(116,470)		0		0		(4,175)		61,798	
Equities	555,562		221,313		(255,412)		(345,709)		0		32,099		207,853	
Pooled Investment Vehicles – Unitised Investment Vehicles	116,634		19,795		0		0		0		(4,656)		131,773	

PENSION FUND ACCOUNTS

Investment type	Value as at 1 April		Purchases at cost & derivative payments		Sale proceeds & derivative receipts		Transition		Other cash transactions		Change in market value		Value as at 31 March	
2013/14 comparative figures	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles – Other Managed Funds	457,168		478,434		(416,515)		345,709		0		47,519		912,315	
Derivative contracts	1,424		0		13		0		0		(773)		638	
Sub total	1,178,536		854,237		(788,410)		0		0		70,014		1,314,377	
Cash deposits – with Managers	46,513		0		0		0		(24,280)		8		22,241	
Cash deposits – margin balances	3,884		0		0		0		(3,927)		0		(43)	
Temporary Investments	2,860		0		0		0		(210)		0		2,650	
Total	1,231,793		854,237		(788,410)		0		(28,417)		70,022		1,339,225	

*Within the Pooled Investment Vehicles - other managed funds total of £1082.132m are £218.741m of level 3 investments as at 31 March 2015. The value of the level 3 investments were £187.625m as at 1st April 2014 which increased to £218.741m as at 31 March 2015.

The increase in value is due to purchases of £32.662m, sales of £10.876m and change in market value of £9.330m.

** The total change in market value for 2014/15 as per the table above is £155.698m. This figure is made up of profit on sales of £35.511m and also the difference between book cost and market value for the whole Fund which for 2014/15 was £120.187m

13b. ANALYSIS OF INVESTMENTS (EXCLUDING DERIVATIVE CONTRACTS)

	2014/15 £000	2013/14 £000
Fixed Interest Securities		
UK		
Corporate quoted	213,878	131,170
Overseas		
Public sector quoted	0	61,798
Equities		
UK		
Quoted	114,066	109,673
Overseas		
Quoted	691,135	628,995
Pooled Funds – additional analysis		
UK		
Index Linked Bonds	159,821	131,773
Overseas		
Hedge Funds	154,404	130,277
Pooled property investments	62,970	51,999
Private Equity	64,337	57,348
Infrastructure	9,946	10,746
	1,470,557	1,313,739

14. ANALYSIS OF DERIVATIVES

Between November 2007 and September 2013 the Fund passively hedged 50% of all currency exposure to eliminate some of the risks over the longer term involved in holding an increased proportion of overseas investments. In 2013 a decision was made to terminate the contract with Northern Trust who provided this service due to the restructure of the Fund which took place on 30 September 2013.

From September 2013, Legal & General, who manage the global equity passive portfolio, hedge 100% of their foreign currency exposure back to sterling.

15. CASH EQUITISATION

During 2013/14, following a review of the Fund structure, a decision was taken to terminate the Fund cash equitisation programme. This was designed to reduce risk by maintaining the Fund close to its strategic asset allocation and minimise the drag on investment performance caused by holding cash. This was completed using futures.

Following on from the restructure cash equitisation is no longer required as this is now managed within the Pension Fund team.

16. SECURITIES LENDING

The Fund participates in a stock lending programme with its Custodian, Northern Trust to lend eligible securities from within its portfolio of stocks to third parties in return for collateral. Collateral is restricted to AAA Sovereign debt (the highest rated collateral available).

Collateralised lending generated income of £0.050m in 2014/15 and this is included within investment income in the Pension Fund Account. At 31 March 2015 £8.240m worth of stock (approx 0.5% of the Fund) was on loan, for which the Fund was in receipt of £8.865m worth of collateral.

Although stock lending involves the transfer of title of those securities to the borrower, the lender's rights to the normal benefits and corporate actions that would have arisen had the asset not been lent are protected. The lender thus retains an economic interest in the securities transferred.

There are no liabilities associated with the loaned assets.

17a. CLASSIFICATION OF FINANCIAL INSTRUMENTS

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

PENSION FUND ACCOUNTS

	31 March 2015			31 March 2014		
	Fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000	Fair value through profit & loss £000	Loans & receivables £000	Financial liabilities at amortised cost £000
Financial Assets						
Fixed Interest Securities – Public Sector	0			61,798		
Equities	228,593			207,853		
Pooled Investment Vehicles – Unitised Investment Vehicles	159,821			131,773		
Pooled Investment Vehicles – Other Managed Funds	1,082,132			912,315		
Derivative contracts	0			653		
Cash		43,325			24,849	
Debtors		3,332			4,916	
Total Assets	1,470,546	46,657	0	1,314,392	29,765	0
Financial Liabilities						
Derivative contracts	0			(15)		
Creditors			(4,468)			(4,939)
Total Liabilities	0	0	(4,468)	(15)	0	(4,939)
Total	1,470,546	46,657	(4,468)	1,314,377	29,765	(4,939)

17b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	2014/15 £000	2013/14 £000
Financial Assets		
Fair value through profit and loss	155,698	70,787
Loans and receivables	0	7
Financial Liabilities		
Fair value through profit and loss	0	(772)
	155,698	70,022

17c. VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1:

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

PENSION FUND ACCOUNTS

Level 2:

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3:

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Shropshire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken quarterly, however, lag quarter behind so the valuation in the accounts is as at 31st December 2014. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Asset type	Investment Manager	Investment Type	Market Value	Quoted market price	Using observable inputs	With significant unobservable inputs
				Level 1	Level 2	Level 3
2014/15			£000	£000	£000	£000
Equities	Majedie Asset Management	UK Equities	114,245	114,245		
	Harris Associates	Global Equities	114,348	114,348		
Pooled Investment Vehicles	Legal & General	UK Index Linked Bonds	159,821	159,821		
	Majedie Asset Management	UK Pooled Fund	10,410	10,410		
	Pimco Europe Ltd	Global Aggregate Bonds	213,878	213,878		
	MFS HarbourVest Partners Ltd	Global Equities	132,423	132,423		
	Aberdeen	Private Equity	64,337			64,337
	Property Investors	Property Unit Trusts	62,971		62,971	
	Blackrock	Hedge Fund	77,314			77,314
Global Infrastructure Partners	Infrastructure	9,946		9,946		

PENSION FUND ACCOUNTS

Asset type	Investment Manager	Investment Type	Market Value	Quoted market price	Using observable inputs	With significant unobservable inputs
				Level 1	Level 2	Level 3
2014/15			£000	£000	£000	£000
	Legal & General	Global Equities	304,277	304,277		
	Investec	Global Equities	129,486	129,486		
	Brevan Howard	Hedge Fund	77,090			77,090
Net Derivative Assets			0			
Net Current Assets (incl cash)			42,189	42,189		
Total			1,512,735	1,221,077	72,917	218,741

Asset type	Investment Manager	Investment Type	Market Value	Quoted market price	Using observable inputs	With significant unobservable inputs
				Level 1	Level 2	Level 3
2013/14			£000	£000	£000	£000
Fixed Interest Securities	Strategic Fixed Income	Global Government Bonds	61,798	61,798		
Equities	Majedie Asset Management	UK Equities	110,258	110,258		
Pooled Investment Vehicles	Harris Associates	Global Equities	97,584	97,584		
	Legal & General	UK Index Linked Bonds	131,773	131,773		
	Majedie Asset Management	UK Pooled Fund	11,680	11,680		
	Pimco Europe Ltd	Global Aggregate Bonds	131,170	131,170		
	MFS	Global Equities	123,238	123,238		
	HarbourVest Partners Ltd	Private Equity	57,348			57,348
	Aberdeen Property Investors	Property Unit Trusts	51,999		51,999	
	Blackrock Global Infrastructure Partners	Hedge Fund Infrastructure	67,802			67,802
				10,746	10,746	
		Legal & General	Global Equities	289,037	289,037	
	Investec	Global Equities	106,818	106,818		
	Brevan Howard	Hedge Fund	62,475			62,475
Net Derivative Assets			639	639		
Net Current Assets (incl cash)			24,838	24,838		
Total			1,339,203	1,088,833	62,745	187,625

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits to pay members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the

PENSION FUND ACCOUNTS

opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the assets mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk the Pension Fund Officers and the Fund investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by Fund Officers to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historic data and expected investment return movement during the financial year the Fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

Asset Type	Potential market movements (+/-)
UK Equities	10.3%
Global Equities	9.0%
Property	3.6%
Private Equity	4.9%
Hedge Funds	4.6%
Global Aggregate Bonds	2.6%
UK ILG over 5 years	9.6%
Infrastructure	4.4%

PENSION FUND ACCOUNTS

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows.

Asset type	Value as at 31 March £000	Percentage change %	Value on increase £000	Value on decrease £000
2014/15				
Net Assets including Cash	42,189	0.00	42,189	42,189
Investment Portfolio Assets				
UK Equities	114,066	10.30	125,815	102,317
Global Equities	691,124	8.96	753,049	629,199
Corporate Bonds	213,878	2.57	219,375	208,381
Property	62,970	3.63	65,256	60,684
Private Equity	64,337	4.85	67,457	61,217
Hedge Funds	154,404	4.57	161,460	147,348
UK Index linked Gilts over 5 years	159,821	9.59	175,148	144,494
Infrastructure	9,946	4.35	10,379	9,513
Total assets available to pay benefits	1,512,735		1,620,128	1,405,342

Asset type	Value as at 31 March £000	Percentage change %	Value on increase £000	Value on decrease £000
2013/14				
Net Assets including Cash	24,825	0.0	24,825	24,825
Investment Portfolio Assets				
UK Equities	232,911	12.3	261,559	204,263
Global Equities	505,716	11.2	562,356	449,076
Corporate Bonds	131,170	2.5	134,449	127,891
Property	51,999	2.7	53,403	50,595
Private Equity	57,348	5.3	60,388	54,309
Hedge Funds	130,277	4.5	136,140	124,415
Global Government Bonds	61,798	2.7	63,467	60,129
UK Index linked Gilts over 5 years	131,773	8.8	143,369	120,177
Infrastructure	10,747	4.0	11,176	10,317
Net derivative assets	638	0.0	638	638
Total assets available to pay benefits	1,339,202		1,451,770	1,226,634

Interest rate risk

The Fund invests in financial assets e.g. corporate and index linked bonds for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

PENSION FUND ACCOUNTS

The Fund's direct exposure to interest movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2015 £000	As at 31 March 2014 £000
Cash and cash equivalents	39,915	22,441
Cash balances	20	38
Index Linked Bonds	159,821	131,773
Corporate Bonds	213,878	131,170
Fixed Interest securities (10 years)	0	61,798
Total change in assets available	413,635	347,020

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The following analysis shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates assuming all variables, in particular exchange rates, remain constant.

Asset type	Carrying amount £000	Effect on asset values	
		+100BPS £000	-100BPS £000
As at 31 March 2015			
Cash and cash equivalents	39,915	0	0
Cash balances	20	0	0
Index Linked Bonds (average 25 years)	159,822	(39,955)	39,955
Absolute Return Strategy IV Fund (-1.87 years)	106,473	1,991	(1,991)
Global Investment Grade Credit Fund (5.67 years)	107,405	(6,090)	6,090
Total change in assets available	413,635	(44,054)	44,054

Asset type	Carrying amount £000	Effect on asset values	
		+100BPS £000	+100BPS £000
As at 31 March 2014			
Cash and cash equivalents	22,241	0	0
Cash balances	38	0	0
Index Linked Bonds (24 years)	131,773	(31,626)	31,626
Absolute Return Strategy IV Fund (2.05 years)	66,155	(1,356)	1,356
Global Investment Grade Credit Fund (5.24 years)	65,015	(3,407)	3,407
Fixed Interest securities (10 years)	61,798	(6,180)	6,180
Total change in assets available	347,020	(42,568)	42,568

In terms of interest received, if the interest rate increases by 1% this will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

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As at 31 March 2015 the Fund also had £3.380m of Pension Fund revenue cash invested. All of this was invested in two call accounts and is classified as a variable rate investment. If interest rates throughout the year had been 1% higher this would have increased the amount of interest earned on these investments by £0.034m. Similarly, the impact of a 1% fall in interest rates would be a £0.034m reduction in interest received. The Fund had nothing invested in fixed term deposits as at 31 March 2015.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than £ sterling. The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous year end:

Currency exposure – asset type	Asset value as at 31 March 2015 £000	Asset value as at 31 March 2014 £000
Overseas Equities	368,515	614,250
Overseas Private Equity	67,925	61,807
Overseas Pooled Property	15,043	18,871
Overseas Government Bonds	0	64,302
Overseas Infrastructure	16,067	11,471
Total change in assets available	467,550	770,701

Following analysis of historical data the Fund considers the likely volatility associated with foreign exchange rate movements to be 5% (as measured by one standard deviation). A 5% fluctuation in the currency is considered reasonable based on historical movements in the month end exchange rates over a rolling 36 month period assuming all other variables, in particular, interest rates, remain constant. A 5% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Carrying amount	Change in year in the net assets available to pay benefits	
As at 31 March 2015	£000	+5% £000	-5% £000
Overseas Equities	368,515	386,941	350,089
Overseas Private Equity	67,925	71,321	64,529
Overseas Pooled Property	15,043	15,795	14,291
Overseas Infrastructure	16,067	16,870	15,264
Total change in assets available	467,550	490,927	444,173

Currency exposure - asset type	Carrying amount	Change in year in the net assets available to pay benefits	
As at 31 March 2014	£000	+5% £000	-5% £000
Overseas Equities	614,250	644,963	583,538
Overseas Private Equity	61,807	64,897	58,717
Overseas Pooled Property	18,871	19,815	17,927
Overseas Government Bonds	64,302	67,517	61,087
Overseas Infrastructure	11,471	12,045	10,897
Total change in assets available	770,701	809,237	732,166

PENSION FUND ACCOUNTS

Credit Risk

Credit risk is the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, (the Fund currently does not hold any but derivatives positions would be an exception here, where risk equates to the net market value of a positive derivative position). However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The investment priorities for the management of the pension fund revenue cash held for day to day transactions are the security of the principal sums it invests. The enhancement of returns is a secondary consideration to the reduction of minimisation of risk. Accordingly, the Administering Authority ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

The main criteria for determining the suitability of investment counterparties is outlined in the Administering Authority's creditworthiness policy which the Pension Fund has also adopted and approved as part of the annual Pension Fund Treasury strategy.

The Fund's lending list is reviewed continuously in conjunction with the Administering Authority's treasury advisor. The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. The maximum amount is currently limited to £4,000,000. With security of capital being the main priority, lending continues to be restricted to highly credit rated institutions, part nationalised institutions and other Local Authorities. In addition to credit ratings the Administering Authority continually monitors the financial press and removes institutions from its approved lending list immediately if appropriate.

Asset type	Rating	Balances as at 31 March 2015 £000	Balances as at 31 March 2014 £000
Natwest Instant Access Account	A	1,380,000	650,000
Handelsbanken Instant Access Account	AA-	2,000,000	2,000,000
Total		3,380,000	2,650,000

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due i.e. that cash is not available when required. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs and also to meet investment commitments.

The Fund has immediate access to cash through two instant access accounts which at any one time could have up to £6 million available in total. The Fund also has the ability to access immediate cash held by Northern Trust which as at 31 March 2015 was £23.135m.

PENSION FUND ACCOUNTS

The Fund does not have access to an overdraft facility. All financial liabilities at 31 March 2015 are due within one year.

19. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation was undertaken as at 31 March 2013. The next valuation will take place as at 31 March 2016.

The key elements of the funding policy are:

- To ensure the long term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- To ensure that employer contribution rates are as stable as possible
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The Funding strategy statement specifies a target period for achieving full funding of 19 years (19 years as at the 2010 valuation). For each individual employer, the funding objective, method and assumptions depend on a particular employer's circumstances and different approaches have been adopted where applicable, in accordance with the Funding Strategy Statement.

At the 2013 actuarial valuation, the Fund was assessed as 76% funded (81% at the March 2010 valuation). This corresponded to a deficit of £383 million (2010 valuation was £226 million) at that time. Revised contributions set by the 2013 valuation will be introduced in 2014/15 and the common contribution rate (i.e. the average employer contribution rate in respect of future service only) is 14.0% of pensionable pay.

The valuation of the Fund has been undertaken by the projected unit method under which the salary increase assumed for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows :-

Financial assumptions	31 March 2013	31 March 2010
Discount rate	4.95% p.a.	6.25% p.a.
Assumed long term CPI inflation	2.6% p.a.	3.0% p.a.
Salary increases – long term	4.1% p.a.	4.5% p.a.
Salary increases – short term	1% p.a. for 3 years	In line with Government proposals
Pension increases in payment	2.6% p.a.	3.0% p.a.

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Mortality assumptions	Male	Female
Current pensioners (at age 65)	23.7	26.0
Future pensioners (assumed current age 45)	25.9	28.8

20. ANALYSIS OF DEBTORS

Provision has been made for debtors known to be outstanding as at 31 March 2015. An analysis of debtors is shown below:

	2014/15 £000	2013/14 £000
Central Government bodies	9	4
Other Local Authorities	1,679	3,406
NHS Bodies	1	0
Other entities and individuals	1,643	1,468
Total	3,332	4,878

21. ANALYSIS OF CREDITORS

Provision has also been made for creditors known to be outstanding at 31 March 2015. An analysis of creditors is shown below:

	2014/15 £000	2013/14 £000
Other Local Authorities	1,239	3,960
Other entities and individuals	3,229	978
Total	4,468	4,938

22. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Scheme members have the option to make Additional Voluntary Contributions (AVC's) to enhance their pension benefits. These contributions are invested with an appropriate provider and used to purchase an annuity at retirement. Contributions are paid directly from scheme members to the AVC provider and are therefore not represented in these accounts in accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No3093).

Contributions are invested in with-profit, unit linked or deposit funds of the scheme member. At present there are around 534 scheme members with AVC policies. These policies are held either by Equitable Life or Prudential.

During 2014/15 contributions to the schemes amounted to £0.530m. The combined value of the AVC funds as at 31 March 2015 was £4.228m.

23. RELATED PARTY TRANSACTIONS

The Shropshire County Pension Fund is administered by Shropshire Council. Consequently there is a strong relationship between the Council and the Pension Fund. Shropshire Council incurred costs of £0.849m (2013/14 £0.681m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

Shropshire Council is also the single largest employer of members of the pension fund and contributed £18.732m (2013/14 £17.627m). All monies owing to the Fund were paid across in the year. The Scheme Administrator of the Shropshire County Pension Fund is also the Head of Finance, Governance & Assurance for Shropshire Council.

Several employees of Shropshire Council hold key positions in the financial management of the Shropshire County Pension Fund. The Head of Finance, Governance & Assurance (s151 Officer & Scheme Administrator), the Head of Treasury and Pensions, the Treasury Accountant, the Investment Officer and the Pensions Administration Manager are all active members of the Fund.

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Shropshire County Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Shropshire Council.

Under legislation, introduced in 2003/04, Councillors are entitled to join the scheme and three Members of the Pension Fund Committee are Members of the Fund. These are Thomas Biggins, Malcolm Pate and Andrew B Davies. Jean Smith, Pensioner representative is also a member of the Fund.

Legislation coming into force on 1 April 2014 means the LGPS is only available to councillors and elected mayors of an English County Council or District Council who elected to joined before 31 March 2014. From 1 April 2014 access to the LGPS for councillors has been removed. Current members can continue in the LGPS until the end of their individual office.

24. CONTRACTUAL COMMITMENTS

The Fund has a 5% (£76 million) strategic asset allocation to Private Equity. It is necessary to over commit the strategic asset allocation because some private equity investments will mature and be repaid before the committed capital is fully invested.

As at 31 March 2015 £123m has been committed to investment in private equity via a fund of funds manager (HarbourVest Partners). Investment in this asset class will be made as opportunities arise over the next 2-3 years. As at 31 March 2015 the funds Private Equity investments totalled £64.337m.

25. CONTINGENT ASSETS

11 admitted body employers in the Shropshire County Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

26. VALUE ADDED TAX

The Fund is reimbursed VAT by HM Revenue and Customs. The accounts are shown exclusive of VAT.

27. CUSTODY OF INVESTMENTS

Custodial Services are provided to the Fund by Northern Trust. This includes the safekeeping of assets, the collection of income, the exercise of voting rights and the monitoring and execution of corporate actions in conjunction with investment managers. The Custodian also provides independent confirmation of the assets and their value held by the Fund. Securities are held on a segregated basis via a nominee account and are clearly separated from the Custodians own assets.

28. FUND AUDITORS

Grant Thornton has completed its audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practice Board. The Audit Certificate is published within this report.

29. PENSION FUND BANK ACCOUNT

In March 2010 a separate bank account was opened for the Shropshire County Pension Fund and from the 1 April 2010 all income received is being paid into this account. The balance on this account is monitored daily and surplus cash balances invested and as at 31 March 2015 £3.380 million was invested. The cash balance in the Pension Fund account as at the same date was £0.020 million. All expenditure is still being paid by Shropshire Council on behalf of the Fund and this is reimbursed to Shropshire Council on a monthly basis.

30. FUND STRUCTURE UPDATE

At the March 2014 Pensions Committee a decision was taken to disinvest funds with Strategic Fixed Income and invest additional assets with Pimco. This process took place in May 2014.

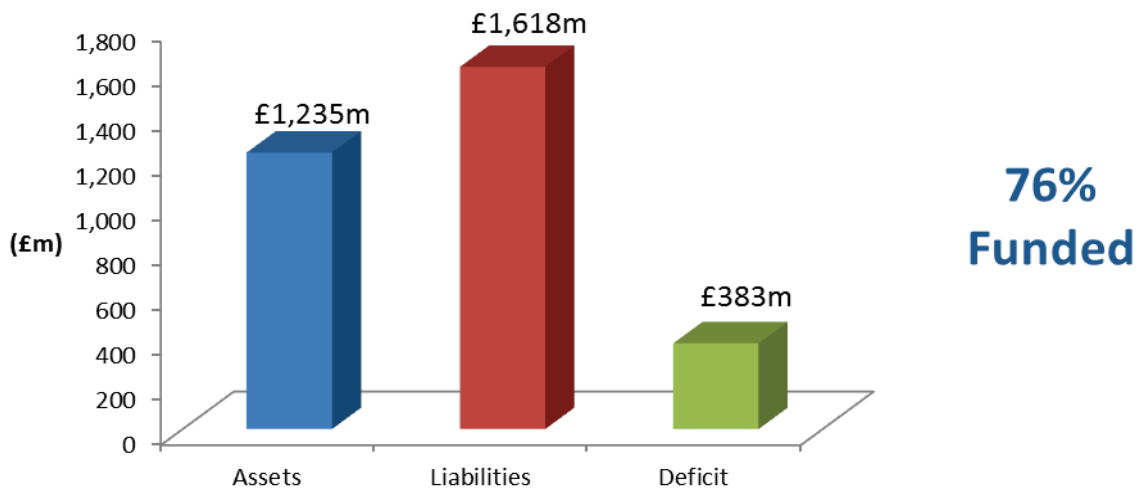
SHROPSHIRE COUNTY PENSION FUND

Accounts for the year ended 31 March 2015 Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Shropshire County Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £1,235 million represented 76% of the Fund's past service liabilities of £1,618 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £383 million.



The valuation also showed that a common rate of contribution of 14.0% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 82% with a resulting deficit of £274 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £17 million per annum increasing at 4.1% per annum (equivalent to approximately 8.2% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to

PENSION FUND ACCOUNTS

cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.95% per annum	5.6% per annum
Rate of pay increases (long term)*	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	3.9% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields fell significantly, resulting in a lower discount rate

PENSION FUND ACCOUNTS

being used for IAS26 purposes at the year end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). The expected long-term rate of CPI inflation also fell during the year, resulting in a lower assumption for pension increases at the year end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £1,807 million.

The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c£295 million. Adding interest over the year increases the liabilities by a further c£81 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by c£2 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £2,181 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2015

TO BE UPDATED FOLLOWING AUDIT OF PENSION FUND ACCOUNTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Shropshire Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2013/14.

This report is made solely to the members of Shropshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Head of Finance, Governance and Assurance & Scheme Administrator and auditor

As explained more fully in the Statement of the Head of Finance, Governance and Assurance's Responsibilities, the Head of Finance, Governance and Assurance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance and Assurance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Jon Roberts,

Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands B4 6AT

30 September 2014

Section 8

**Housing Revenue
Account**

HOUSING REVENUE ACCOUNT

The Housing Revenue Account Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

HRA INCOME AND EXPENDITURE STATEMENT

2013/14		2014/15	
£		£	£
	Expenditure		
4,900,807	Repairs & Maintenance	4,743,484	
2,935,528	Supervision and Management	3,266,387	
126,756	Rents, rates taxes and other charges	117,734	
4,171,900	Depreciation - Dwellings	4,262,170	
43,030	- Other	43,030	
3,389,719	Impairment	(7,397,450)	
4,740	Debt Management Costs	6,540	
70,000	Provision for Bad or Doubtful Debts	(23,620)	
15,642,480	Total Expenditure		5,018,275
	Income		
(16,653,589)	Dwelling Rents	(17,197,625)	
(186,251)	Non Dwelling Rents	(175,657)	
(179,007)	Other Income	(27,200)	
(217,942)	Charges for Services and Facilities	(308,431)	
(849,704)	Contributions towards expenditure	(921,849)	
(18,086,492)	Total Income		(18,630,761)
(2,444,012)	Net Cost of HRA Services included in the Comprehensive I&E Statement		(13,612,487)
173,510	HRA Share of Corporate & Democratic Core		178,275
(2,270,502)	Net Cost of HRA Services		(13,434,212)
266,337	(Gain) or loss on sale of HRA Assets		(67,493)
2,964,328	Interest payable and similar charges		2,994,856
(29,678)	Interest and Investment Income		(39,267)
(86,943)	Income & Expenditure in relation to investment properties & change in fair values		(20,561)
843,542	(Surplus) or deficit for the year on HRA Services		(10,566,676)

HOUSING REVENUE ACCOUNT

MOVEMENT ON THE HRA STATEMENT

2013/14 £		2014/15 £	£
(1,041,350)	Balance on the HRA at the end of the previous year		(2,546,067)
843,542	(Surplus)/Deficit for the year on the HRA Income and Expenditure Statement		(10,566,676)
8,982	Difference between any other item of income and expenditure determined in accordance with the Code and those determined in accordance with statute.	0	
538	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute.	0	
(266,337)	(Gain) or Loss on sale of HRA non-current assets	67,493	
(2,087,235)	Transfer to/(from) the Capital Adjustment Account	9,969,299	
(2,344,052)	Adjustments between accounting basis and funding basis under statute		10,036,792
(4,207)	Transfer to/(from) Capital Reserve	0	
(4,207)	Transfers to or (from) Reserves		0
(1,504,717)	(Increase) or Decrease in year on the HRA		(529,884)
(2,546,067)	Balance on the HRA at the end of the current year		(3,075,951)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING STOCK

	2014/15	2013/14
Total Number of Dwellings at 31 March :		
Houses and Bungalows	3,257	3,234
Flats	878	881
	4,135	4,115
Change in Stock		
Stock at 1 April	4,115	4,189
Less: Sales – Right to Buy	(28)	(26)
Sales – Other	0	(2)
Disposal/restructuring	(1)	(48)
Acquisition – full ownership	38	2
Acquisition – shared ownership	11	0
	4,135	4,115

HOUSING REVENUE ACCOUNT

2. RENT ARREARS

	2014/15 £	2013/14 £
Due from Current Tenants	88,137	149,507
Due from Former Tenants	83,388	178,852
Total Rent Arrears as at 31 March	171,525	328,360
Pre-Payments	(321,652)	(499,183)
Net Arrears	(150,127)	(170,823)

As at 31 March 2015, the total provision set aside for housing rent bad debts is £317,241.

3. BALANCE SHEET VALUE OF ASSETS

	Council Dwellings £	Other Land & Buildings £	Assets Under Construction £	Total Property, Plant & Equipment £	Investment Properties £	Current Assets Held for Sale £	Total £
Cost or Valuation							
At 1 April 2014	155,499,330	767,000	1,309,777	157,576,107	1,049,924	0	158,626,031
Additions	8,187,237	0	924,297	9,111,534	0	0	9,111,534
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	7,730,304	0	0	7,730,304	0	(13,599)	7,716,705
Derecognition - disposals	(1,198,380)	0	0	(1,198,380)	(24,710)	(80,703)	(1,303,793)
Derecognition - other	0	0	0	0	(323,365)	0	(323,365)
Assets reclassified (to)/from Held for Sale	(829,080)	0	0	(829,080)	0	829,080	0
Other movements in cost or valuation	1,111,173	0	(719,323)	391,850	(391,850)	0	0
As at 31 March 2015	170,500,585	767,000	1,514,751	172,782,336	309,999	734,777	173,827,112
Accumulated Depreciation and Impairment							
At 1 April 2014	(4,374,926)	(10,360)	0	(4,385,286)	0	0	(4,385,286)
Depreciation Charge	(4,294,840)	(10,360)	0	(4,305,200)	0	0	(4,305,200)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(332,854)	0	0	(332,854)	0	0	(332,854)
Derecognition - disposals	32,400	0	0	32,400	0	0	32,400
As at 31 March 2015	(8,970,220)	(20,720)	0	(8,990,940)	0	0	(8,990,940)
Net Book Value							
As at 31 March 2015	161,530,364	746,280	1,514,751	163,791,395	309,999	734,777	164,836,172
As at 31 March 2014	151,124,404	756,640	1,309,777	153,190,821	1,049,924	0	154,240,745

There is a difference of £293.359m between the tenanted valuation and the District Valuer's Vacant Possession Value of £444.484m at 1 April 2014.

The Vacant Possession Value is an estimate of the total sum that would be received if all of the assets were sold on the open market. The tenanted value declared on the balance sheet is less in recognition of the fact that the properties are occupied by tenants on secure rent less than

HOUSING REVENUE ACCOUNT

would be obtainable on the open market.

The difference represents the economic cost of the Government of providing council housing at less than market rents.

4. MAJOR REPAIRS RESERVE

	2014/15 £	2013/14 £
Balance Brought Forward	3,722,229	1,401,750
Amount Transferred to the MRR during the Year	4,305,200	4,214,930
Capital Expenditure Financing	(6,391,905)	(1,894,451)
Balance Carried Forward	1,635,524	3,722,229

5. CAPITAL EXPENDITURE FINANCING

Capital expenditure in the year on the Council Housing Stock during the year was financed as follows.

	2014/15 £	2013/14 £
Usable Capital Receipts	147,780	152,075
Revenue Contributions utilised in year	1,650,000	379,437
Major Repairs Allowance	6,391,905	1,894,451
Government Grants and Contributions	921,849	849,703
Total Capital Expenditure on Housing Stock	9,111,534	3,275,666

6. CAPITAL RECEIPTS

Capital receipts from the disposal of Housing Revenue Account Assets are shown below. 75% of Capital Receipts arising from Right to Buy disposals are subject to National Pooling arrangements payable to CLG.

	2014/15 £	2013/14 £
Sale of Council Houses under Right to Buy (RTB)	1,614,500	1,565,110
Other Land & Buildings	103,750	240,186
Total Capital Receipts from HRA Asset Disposals	1,718,250	1,805,296
Less Capital Receipts subject to Pooling requirement	(538,587)	(458,204)
Net Capital Receipts from HRA Asset Disposals	1,179,663	1,347,092

HOUSING REVENUE ACCOUNT

7. HOUSING REPAIRS ACCOUNT

	2014/15 £	2013/14 £
Balance Brought Forward 1 April	25,000	29,207
Expenditure on Capital	0	(4,207)
Balance Carried Forward 31 March	25,000	25,000

8. CAPITAL ASSET CHARGES ACCOUNTING ADJUSTMENT

	2014/15 £	2013/14 £
Interest paid on mid-year HRA Capital Financing Requirement	67,604	69,125
Less Impairment	(332,854)	(170,336)
Capital Asset Charges Accounting Adjustment	(265,250)	(101,211)

Impairment represents capital work undertaken in the year that did not increase the asset value.

Section 9

Collection Fund

COLLECTION FUND

The Collection Fund is a statutory account showing the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from taxpayers and the distribution to local authorities and Central Government.

2013/14 Total £000		Council Tax £000	2014/15 NDR £000	Total £000
Income:				
(151,347)	Income from Council Tax (showing the net amount receivable, net of benefits, discounts for prompt payments and transitional relief)	(154,576)	0	(154,576)
5	Transfers from General Fund - Transitional relief	3	0	3
(75,997)	Income collectable from business ratepayers	0	(76,294)	(76,294)
48	Transitional Protection Payments	0	257	257
(227,291)	TOTAL INCOME	(154,573)	(76,037)	(230,610)
Expenditure:				
Precepts				
158,684	- Shropshire Council and Parish and Town Councils	122,933	37,406	160,339
17,743	- West Mercia Police & Crime Commissioner	18,314	0	18,314
9,567	- Shropshire & Wrekin Fire Authority	9,085	763	9,848
38,248	- Central Government	0	38,170	38,170
464	Charges to Collection Fund - costs of collection	0	464	464
Bad and doubtful debts				
(252)	- write offs	(277)	(760)	(1,037)
1,157	- provisions	650	703	1,353
Appeals rates				
(1,302)	- write offs	0	(1,993)	(1,993)
2,908	- provisions	0	8,122	8,122
Contributions				
506	- Towards previous year's estimated Collection Fund surplus	2,461	(2,011)	450
227,723	TOTAL EXPENDITURE	153,166	80,865	234,031
430	Deficit/(Surplus) for the Year	(1,407)	4,828	3,421
(857)	Balance brought forward	(3,514)	3,089	(425)
(425)	Balance carried forward	(4,920)	7,916	2,996

COLLECTION FUND

NOTES TO THE COLLECTION FUND

1. COUNCIL TAX BASE

The council tax base consists of the number of chargeable dwellings in each valuation band adjusted to reflect discounts and other variations. The total tax base is calculated by converting each band to its band D equivalent and providing for losses and variations during the year of collection. The tax base for 2014/15 was as follows:-

Council Tax Band	Net Dwellings	Ratio	Band D Equivalents
A1	31.73	5/9	17.63
A	15,270.79	6/9	10,180.53
B	25,907.02	7/9	20,149.90
C	23,432.32	8/9	20,828.73
D	17,278.85	9/9	17,278.85
E	13,306.99	11/9	16,264.10
F	7,224.17	13/9	10,434.91
G	4,018.67	15/9	6,697.78
H	259.75	18/9	519.50
			102,371.93
Adjustment for MoD Properties (687.83 Band D Equivalents) and Collection Rate (97.5%)			(1,896.75)
			100,475.18

2. NON-DOMESTIC RATES (BUSINESS RATES)

Shropshire Council is the billing authority for NDR and retains 49% share of the total collected and distributes the remaining balance to Central Government (50%) and Shropshire & Wrekin Fire Authority (1%).

At 31 March 2015, the total non-domestic rateable value for all business premises in Shropshire was £204,119,919. The multiplier set by Government to calculate rate bills in 2014/15 was 47.1p for small businesses and 48.2p for all other businesses.

Section 10

Glossary

GLOSSARY

Accountable Body	An accountable body receives external funding and is responsible for the financial management of these funds, therefore the accountable body must ensure that robust accounting and performance management arrangements are in place with regard to the distribution and spending of these funds.
Accounting Concepts	The basis on which an organisation's financial statements are based to ensure that those statements 'present fairly' the financial position and transactions of that organisation. Accounting concepts include 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements'.
Accounting Policies	The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its financial statements.
Accumulated Absences Account	The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.
Accruals	The accruals accounting concept requires the non-cash effect of transactions to be included in the financial statement for the year in which they occur, not in the period in which the cash is paid or received.
Actuarial Basis	The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation.
Actuarial Gain	This may arise on defined benefit pension scheme liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).
Actuarial Loss	These may arise on defined benefit pension scheme liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

GLOSSARY

Adjusted Capital Financing Requirement	The value of the Capital Financing Requirement after it has been adjusted by the value of Adjustment A.
Adjustment A	The difference between the Council's Credit Ceiling and Capital Financing Requirement to ensure that the impact of the Prudential Code (effective from 1 April 2004) is neutral on the Council's revenue budget. Once calculated the figure is fixed.
Appropriation	The transfer of sums to and from reserves, provisions and balances.
Assets	These are economic resources that can include anything tangible or intangible that is capable of being owned or controlled to produce value and that is held to have positive economic value.
Associated Company	<p>An organisation in which the Council has a participating interest and over which it can exercise significant influence without support from other participants in that organisation (e.g. other board members etc.).</p> <p>The exercise of significant influence occurs when one organisation is actively involved and is influential in the direction of another organisation through its participation in policy decisions including decisions on strategic issues. A holding of 20% or more of the voting rights of an organisation is generally recognised as being a significant influence.</p>
Balances	Amounts set aside to meet future expenditure but not set aside for a specific purpose.
Balance Sheet	The financial statement that reports the financial position of an organisation at a point in time, for Shropshire Council this is the 31st March. It shows the balances and reserves at the Council's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the non current assets held.
Below the Line Items	Items that are notionally allocated to services to arrive at the "Net Cost of Service". Below the line items include depreciation and IAS19 pension costs.

GLOSSARY

Bonds	Investment in certificates of debts issued by a Government or company. These certificates represent loans which are repayable at a future date with interest.
Borrowing	Loans from the Public Works Loans Board and the money markets which finance the capital programme of the Council.
Budget	The financial plan reflecting the Council's policies and priorities over a period of time i.e. what the Council is going to spend to provide services. This is the end product of a budget strategy.
Budget Strategy	A plan of how the Council is going to meet its policies and priorities, taking account of the resources available to the Council. This will include proposals for efficiency savings and possibly service changes and/or cuts, which may free resources to spend on other policies and priorities.
Cabinet	The group of members (local councillors) that provide the executive function of the Council within the policy parameters set by Council. This group of members is able to exercise considerable control over the Council. Its decision-making powers are set out in the Council's Constitution.
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 provision.</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>
Capital Expenditure	Expenditure on items that have a life of more than one year, such as buildings, land, major equipment.

GLOSSARY

Capital Financing Requirement (CFR)	This sum represents the Council's underlying need to borrow for capital purposes. It is calculated by summing all items on the balance sheet that relate to capital expenditure, e.g. non current assets, financing leases, Government grants deferred etc. The CFR will be different to the actual borrowing of the Council as actual borrowing will relate to both capital and revenue activities and it is not possible to separate these sums. This figure is then used to calculate the Council's Minimum Revenue Provision.
Capital Grants Unapplied	The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.
Capital Receipts	The proceeds from the sale of non current assets such as land and buildings. These sums can be used to finance new capital expenditure.
Capital Receipts Reserve	The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.
Capitalised Expenditure	Represents expenditure on assets. This expenditure is reflected in the value of assets that are reported in the Balance Sheet and will result in increased depreciation costs to the Income and Expenditure Account.
Cash Equivalents	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 Flow Statement	The financial statement that summarises the Council's inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

GLOSSARY

Code of Practice on Local Authority Accounting (Code)	A publication produced by CIPFA that provides comprehensive guidance on the content of a Council's Statement of Accounts.
Collection Fund	A separate statutory fund which records Council Tax and Non-Domestic Rates collected, together with payments to precepting authorities (e.g. Police Authorities, Fire Authorities etc.), NDR distribution to Central Government and the billing Council's own General Fund.
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 as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.
Comprehensive Income and Expenditure Statement	This is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise Council Tax according to different rules and for the ability to divert particular expenditure to be met from capital resources.
Constitution	The document that sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that the Council is efficient, transparent and accountable to local people.
Contingent Liability	Potential costs that the Council may incur in the future because of something that happened in the past.
Corporate Bonds	Investments in certificates of debt issued by a company. These certificates represent loans which are repayable at a future date with interest.
Council	The Council comprises all of the democratically elected Councillors who represent the various electoral divisions.

GLOSSARY

Council Tax	A local taxation that is levied on dwellings within the local Council area. The actual level of taxation is based on the capital value of the property, which is split into 8 bands from A to H, and the number of people living in the dwelling.
Council Tax Base	To set the Council Tax for each property a Council has to first of all calculate the council tax base. This is a figure that is expressed as the total of band D equivalent properties. The total amount to be raised from Council Tax is divided by this figure to determine the level of tax for a band D property. The level of tax for the other bands of property are calculated by applying a predetermined ratio to the band D figure.
Council Tax Precept	The amount of income due to the Council in respect of the total Council Tax collected.
Credit	A credit represents income to an account.
Credit Ceiling	A term from the old Local Authority capital expenditure system, the credit ceiling represented the Council's total debt outstanding after taking account of sums set aside to repay borrowing.
Creditors	Represents the amount that the Council owes other parties.
Debit	A debit represents expenditure against an account.
Debt Charges	This represents the interest payable on outstanding debt.
Debtors	Represents the amounts owed to the Council.
Dedicated Schools Grant (DSG)	A specific grant paid to Local Authorities to fund the cost of running its schools.
Deferred Capital Receipts Reserve	The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts.
Deficit	Arises when expenditure exceeds income or when expenditure exceeds available budget.

GLOSSARY

Depreciation	The accounting term used to describe the charge made representing the cost of using tangible non current assets The depreciation charge for the year will represent the amount of economic benefits consumed in the period, e.g. due to wear and tear over time.
Direct Revenue Financing	The cost of capital projects that is charged against revenue budgets.
Equities	Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.
Estimation Techniques	The methods adopted by an organisation to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves.
Exceptional Item	Material Items which derive from events or transactions that fall within the ordinary activities of the council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.
Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a non current asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.
Financial Instruments	Financial instruments are formally defined in the Code as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The definition is a wide one, it covers the treasury management activity of the Council, including the borrowing and lending of money and the making of investments. However, it also extends to include such things as receivables and payables and financial guarantees.

GLOSSARY

Financial Instruments Adjustment Account	The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax.
Fixed Interest Securities	Investments in mainly Government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.
Futures	A contract made to purchase or sell an asset at an agreed price on a specified future date.
General Fund Balance	<p>The General Fund is the statutory fund into which all the receipts of a Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise.</p> <p>The General Fund Balance is the reserve held by the Council for general purposes, i.e. against which there are no specific commitments. That said it is prudent and sensible for these sums to be treated as a contingency to protect the Council's financial standing should there be any financial issues in the year.</p>
Going Concern	The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future.
Group Accounts	Where a Council has an interest in another organisation (e.g. a subsidiary organisation) group accounts have to be produced. These accounts report the financial position of the Council and all organisations in which it has an interest.
Hedge Funds	An investment fund that uses sophisticated investment strategies to profit from opportunities on financial markets around the world. These strategies include borrowing money to make investment, borrowing shares in order to sell them and profiting from company mergers.

GLOSSARY

Heritage Assets	These are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained by the Council principally for their contribution to knowledge and culture.
Housing Revenue Account	The Housing Revenue Account reflects the statutory obligation to maintain a revenue account for the local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. This account includes the revenue costs of providing, maintaining and managing Council dwellings are charged. These costs are financed by tenants' rents and government housing subsidy.
Impairment	Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a school) or a deterioration in the quality of the service provided by the asset (e.g. a library closing and becoming a storage facility), or by a general fall in prices of that particular asset or type of asset.
Index Linked Securities	Investments in Government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to Government which can be traded on recognised stock exchanges.
Inflow	This represents cash coming into the Council.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards are issued by the International Accounting Standards Board (IASB) to develop a single set of financial reporting standards for general purpose financial statements.
Investments	An asset which is purchased with a view to making money by providing income, capital appreciation or both.
Joint Venture	An organisation in which the Council is involved where decisions require the consent of all participants.
Leases	A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting, the ownership of the asset remains with the lessor and the transaction does not fall within the capital control system. Finance leases are more akin to borrowing and do fall within the capital system.

GLOSSARY

Liabilities	An obligation to transfer economic benefits. Current liabilities are usually payable within one year.
Liquid Resources	These are resources that the Council can easily access and use, e.g. cash or investments of less than 365 days.
Major Repairs Reserve	The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year end.
Managed Funds	A type of investment where a number of investors pool their money into a fund which is then invested by a fund manager.
Materiality	Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the reader of the accounts. Materiality has both quantitative and qualitative aspects.
Medium Term Financial Plan (MTFP)	A plan detailing projected expenditure and available resources over a period of more than one year. The Council's MTFP covers three years.
Minimum Revenue Provision (MRP)	A minimum amount, set by law, which the Council must charge to the income and expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease).
Movement in Reserves Statement	This provides a reconciliation showing how the balance of resources generated/consumed in the year links in with statutory requirements for raising Council Tax.
Non Domestic Rates (NDR)	Taxation that is levied on business properties. This is collected by billing authorities and then distributed to preceptors and Central Government.
Net Book Value	The amount at which non current assets are included in the balance sheet. It represents historical cost or current value less the cumulative amounts provided for Depreciation or Impairment.

GLOSSARY

Net Expenditure	The actual cost of a service to an organisation after taking account of all income charged for services provided.
Net Cost of Service	The actual cost of a service to an organisation after taking account of all income charged for services provided. The net cost of service includes the cost of depreciation relating to non current assets.
Non Current Assets	Tangible assets that yield benefits to the Council for a period of more than one year, examples include land, buildings and vehicles.
Operating Lease	A lease where the asset concerned is returned to the lessor at the end of the period of the lease.
Outflow	This represents cash going out of the Council.
Outturn	Actual expenditure within a particular year. In the Explanatory Foreword this expenditure is stated before taking into account Depreciation and other Below the Line Items.
Pension 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. Statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays 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.
Post Balance Sheet Event	Those events both favourable and unfavourable, that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Responsible Financial Officer.
Precept	The amount levied by the various joint authorities (e.g. police and fire authorities) which is collected by the council on their behalf. A body which can set a precept is called a preceptor.

GLOSSARY

Primacy of Legislation	The accounting concept primacy of legislation applies when accounting principles and legislative requirements are in conflict, in such an instance the latter shall apply.
Prior Period Adjustments	These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors.
Private Finance Initiative (PFI)	A Government initiative that enables, through the provision of financial support, Authorities to carry out capital projects through partnership with the private sector.
PFI Credits	The financial support provided to Local Authorities to part fund PFI capital projects.
Provisions	Provisions represent sums set aside to meet specific future expenses which are likely or certain to be incurred, as a result of past events, where a reliable estimate can be made of the amount of the obligation.
Prudence	This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available.
Prudential Borrowing	The amount of borrowing undertaken by the Council to fund capital expenditure, in line with affordable levels calculated under the Prudential Code.
Prudential Code	The Government removed the extensive capital controls on borrowing and credit arrangements from 2004/05 and replaced them with a Prudential Code under which each Council determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators e.g. affordable borrowing limit on an annual basis.
Public Works Loans Board (PWLB)	A Government agency providing long and short term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.
Public Sector Bonds	Investments in certificates of debt issued by Government. These represent loans to Governments which are tradable on recognised stock exchanges.

GLOSSARY

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. The balance is reduced when assets with accumulated gains are revalued downwards or impaired and the gains are lost, used in the provision of services and the gains are consumed through depreciation, or disposed of and the gains are realised.</p> <p>The Reserve contains only revaluation gains accumulated since April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.</p>
Revenue Expenditure	<p>Expenditure on the day to day running costs of the Council, such as salaries, wages, utility costs, repairs and maintenance.</p>
Revenue Expenditure Funded By Capital Under Statute	<p>Expenditure incurred during the year that may be capitalised under statutory provisions and does not result in the creation of non current assets.</p>
Revenue Support Grant (RSG)	<p>An amount of money that Central Government makes available to Local Authorities to provide the services that it is responsible for delivering.</p>
Reserves	<p>Sums are set aside in reserves for specific future purposes rather than to fund past events.</p>
Service Reporting Code of Practice (SERCOP)	<p>Provides guidance to local authorities on financial reporting to stakeholders. It establishes 'proper practice' with regard to consistent financial reporting, which allows direct comparisons to be made with the financial information published by other local authorities.</p>
Soft Loan	<p>This is a loan which is provided with a below-market rate of interest.</p>
Specific Grant	<p>A grant awarded to a Council for a specific purpose or service that can not be spent on anything else.</p>
Subsidiary	<p>An organisation that is under the control of the Council (e.g. where the Council controls the majority of voting rights, etc.)</p>
Surplus	<p>Arises when income exceeds expenditure or when expenditure is less than available budget.</p>

GLOSSARY

Trading Service/Organisation	A service run in a commercial style and environment, providing services that are mainly funded from fees and charges levied on customers.
Treasury Strategy	A plan outlining the Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year.
Unit Trusts	A pooled Fund in which small investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.
Usable Capital Receipts Reserve	Represents the resources held by the Council that have arisen from the sale of non current assets that are yet to be spent on other capital projects.
Usable Reserves	Reserves that can be applied to fund expenditure or reduce local taxation, all other reserves retained on the balance sheet cannot.
Variation	The difference between budgeted expenditure and actual outturn, also referred to as an over or under spend.
Virement	The transfer of resources between two budgets, such transfers are governed by financial rules contained within the Constitution.

Draft Statement of Accounts (Unaudited)

2014 – 2015

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Analytical Review of Shropshire Council's Statement of Accounts for 2014/15

1. The analytical review for 2014/15 highlighted a number of areas where there were material changes, the most significant are detailed below along with an explanation of why these changes have occurred:

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Children and Education Services (Expenditure)**

2014/15 £000	2013/14 £000	Decrease (Value) £000	Decrease (%)
228,346	240,391	(12,045)	5%

The amount of DSG allocated in 2014/15 reduced by £12m, with a corresponding decrease in expenditure, which was a result of seven schools converting to Academies during the year.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Cultural and Related Services (Expenditure)**

2014/15 £000	2013/14 £000	Decrease (Value) £000	Decrease (%)
22,640	30,049	(7,409)	25%

The reduction in expenditure is due to a number of factors including a reduction in capital charges. This reduction was because in 2013/14 the Secret Hills Discovery Centre incurred capital charges of £0.76m, but since this transferred ownership in 2014/15, this is no longer applicable. There has also been a review of the allocation of the Ringway contract in 2014/15 which has resulted in costs (£2m) being allocated to Environmental and Regulatory Services that were previously allocated to Cultural and Related Services. Youth Support costs of £1.4m in 2013/14 have been reallocated to Children Services in 2014/15. There have also been a number of staffing reductions in 2014/15 in order to deliver budgetary savings including areas such as Library Services.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Local Authority Housing (HRA) (Expenditure)**

2014/15 £000	2013/14 £000	Decrease (Value) £000	Decrease (%)
5,012	15,642	10,630	68%

In 2013/14 HRA dwellings were revalued as at 01/04/13, this revaluation resulted in a £9.4m revaluation loss. HRA dwellings were subsequently indexed to 31/03/14 using ONS figures (4.4% increase), which resulted in a £6.3m revaluation increase; a net revaluation loss for the year. In 2014/15 dwellings were indexed to 31/03/15 using ONS figures (7.3% increases), and this has generated a £10.7m revaluation increase.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Planning Services (Expenditure)**

2014/15 £000	2013/14 £000	Increase (Value) £000	Increase (%)
20,657	16,037	4,620	29%

Expenditure has increased by £4.9m in Community Development in relation to Revenue Expenditure Funded from Capital Under Statute and capital grants for the Broadband capital project.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Planning Services (Income)**

2014/15 £000	2013/14 £000	Increase (Value) £000	Increase (%)
(15,253)	(8,453)	(6,800)	80%

Similar to the Expenditure increase in Planning Services, the majority of this increase relates to the £4.9m additional income for the Broadband Capital project. Also as highlighted in the revenue monitoring reports during the year, additional planning services income was received during 2014/15.

- **Comprehensive Income and Expenditure Statement, Expenditure on Continuing Services – Non Distributed Costs (Expenditure)**

2014/15 £000	2013/14 £000	Increase (Value) £000	Increase (%)
(485)	(1,608)	1,123	70%

The movement on Non Distributed Costs relates to a change in settlement, curtailments and past service costs. Curtailments have decreased by £3.7m, settlements have decreased by £5.1m and past service cost has decreased by £0.4m resulting in a net increase of £1m. In 2013/14 Past Service costs and Curtailments were higher because of an increased number of members retiring during the year. Settlements have decreased in 2014/15 because of a lower number of Academies transferring from the scheme.

- **Comprehensive Income and Expenditure Statement - Other Operating Expenditure**

2014/15 £000	2013/14 £000	Decrease (Value) £000	Decrease (%)
70,519	106,374	35,855	34%

Losses on disposal of non-current assets decreased from £99.98m in 2013/14 to £63.67m in 2014/15. The major element of this loss was made up of schools that transferred to Academies on 125 year leases and were written out of the Council balance sheet. In both years 7 schools that were previously on the Council balance sheet transferred to Academies, however the nature of the school and their values differed between years. Of the 7

schools in 2013/14, 2 were primary Schools, 4 were secondary School (plus associated leisure facilities) and 1 a special School; also 2 of the schools were new build schools which generally have a higher Net Book Value. In 2014/15 4 were primary schools and 3 secondary schools (plus associated leisure facilities) and none of the schools were new builds.

- **Comprehensive Income and Expenditure Statement – Financing and Investment Income and Expenditure**

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
23,737	33,024	9,287	28%

Income and expenditure in relation to investment properties and changes in their fair value increased from £2.3m in 2013/14 to £18.6m in 2014/15. The main reason for this was an upward revaluation of investment properties. In 2014/15 a number of Investment Property Assets were revalued and a small number were subject to significant valuation increases. These were mainly land holdings and reflected potential for future development on these sites, where previously they had been mainly valued on the basis of agricultural use. However changes to planning policy and the inclusion of sites in SAMDev have now opened up these sites for development and their value has increased as a result. There have also been some asset specific changes, such as the site at Mile End being opened up for development from the Highways Agency adding an access spur as part of the refurbishment of the roundabout and in 2014/15 the Council has acquired Shrewsbury Market Hall and associated shops.

This increase in the fair value of investment properties has been partially offset by an increase in capital charges on Trading Services of £9.6m. This is due to administrative buildings being revalued in 2014/15 resulting in impairments and revaluation losses being charged to revenue.

- **Comprehensive Income and Expenditure Statement, Surplus or Deficit on Revaluation of Property, Plant and Equipment Assets**

2014/15	2013/14	Decrease (Value)	Decrease (%)
£000	£000	£000	
(9,354)	2,093	(11,447)	547%

This figure is the value of upward or downward revaluations that are debited/credited directly to the Revaluation Reserve, rather than to service revenue accounts. In 2014/15 the value of upward revaluations increased by £6.8m, whilst the value of downward revaluations decreased by £4.6m in 2013/14. These changes reflect the movement in property values for those revalued each year, compared to their last valuations. Also if previous valuation movements have been charged to service revenue accounts in previous financial years, these can be reversed first if there has been a subsequent valuation change.

- **Comprehensive Income and Expenditure Statement, Remeasurement of the Net Defined Benefit Liability**

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
101,795	(59,672)	161,467	271%

Remeasurement of the Net Defined Benefit Liability has changed from a gain of £59.7m in 2013/14 to a loss of £101.8m in 2014/15. The return on plan assets has increased by £29.7m due to an increase in the return on investment (12.47%) when compared to 2013/14 (7.87%). The remeasurement gain/(loss) on liabilities has changed from a gain of £42.9m in 2013/14 to a loss of £148.3m in 2014/15. This is because of a change in financial assumptions used in calculating the future cost of liabilities.

- **Balance Sheet Non Current Assets – Property, Plant & Equipment**

2014/15	2013/14	Decrease (Value)	Decrease (%)
£000	£000	£000	
995,904	1,062,212	(66,308)	6%

This reflects the overall movement in property, plant & equipment. The movement consists of additions, disposals/recognitions, revaluations (upwards and downwards) and impairments. In 2014/15 the net effect of revaluations was relatively even across all assets and the level of additions was of a similar value to the depreciation charge. The major reason for the decrease in the value of PPE was due to asset disposals. The Net Book Value of assets written out was £59m, the majority of this was due to schools transferring to Academies and the assets been derecognised as they are provided to the Academy on a 125 year peppercorn lease. In 2014/15 the assets of 4 Primary and 3 Secondary schools (plus associated leisure facilities), previously included on the Council's balance sheet transferred to new Academy Schools.

- **Balance Sheet Non Current Assets – Investment Property**

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
47,673	28,878	18,795	65%

In 2014/15 a number of Investment Property Assets were revalued and a small number were subject to significant valuation increases. These were mainly land holdings and reflected potential for future development on these sites, where previously they had been mainly valued on the basis of agricultural use, but changes to planning policy and the inclusion of sites in SAMDev has now opened up these sites for development and their value has increased as a result. There have also been some asset specific changes, such as the site at Mile End being opened up for development from the Highways Agency adding an access spur as part of the refurbishment of

the roundabout and in 2014/15 the Council has acquired Shrewsbury Market Hall and associated shops.

- **Balance Sheet Long Term Assets – Long Term Debtors**

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
7,240	3,139	4,101	131%

New loans totalling £4.03m were provided to Housing Associations in 2014/15 as approved in the Council Treasury Management Strategy.

- **Balance Sheet Current Liabilities – Bank Overdraft**

2014/15	2013/14	Decrease (Value)	Decrease (%)
£000	£000	£000	
(10,131)	(17,586)	7,455	42%

The decrease in the bank overdraft reflects a lower figure for BACS in transit in 2014/15 compared to that of 2013/14. The BACS in transit was inflated in 2013/14 due to the Pension Fund lump sum payment for 2014/15 appearing as a BACS in transit (£5.5m). For 2015/16 the Pension Fund lump sum payment was paid via CHAPS on the 1st April and therefore did not have to be reflected as a BACS in transit in the 2014/15 financial year.

- **Balance Sheet Current Liabilities – Short Term Borrowing**

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
(11,117)	(7,397)	(3,720)	50%

Short term borrowing has increased due to £8.8m now being categorised as short term as the loans are due to be repaid within the next 12 months. This has been offset by the repayment of £5m of loans in 2014/15 which were falling under this category in 2013/14.

- **Balance Sheet Current Liabilities – Grants Receipts In Advance (Revenue)**

2014/15	2013/14	Decrease (Value)	Decrease (%)
£000	£000	£000	
(10,628)	(6,041)	4,587	43%

The reduction in Grants Receipts in Advance (Revenue) is mainly due to the swing in the balance held for Housing Benefit Rent Allowance Grant for the Government. In 2013/14 the Council was holding a balance of £4.5m in hand, however in 2014/15 this has all been applied and the Council is now holding a debtor balance of £1.2m for rent allowances, thereby removing this grant from this category on the balance sheet.

- **Balance Sheet Current Liabilities – Grants Receipts In Advance (Capital)**

2014/15	2013/14	Decrease (Value)	Decrease (%)
£000	£000	£000	
(1,040)	(70)	970	93%

The decrease is because this balance previously included a £1m grant for BDUK for the Broadband capital project. This has now been fully applied in 2014/15.

- **Balance Sheet Long Term Liabilities – Pensions Liability**

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
(407,792)	(297,394)	110,398	37%

The increase in the Pension Liability is mainly due to an increased value of Pension liabilities due to a loss on financial assumptions caused by a lower discount rate being used and lower inflationary rate being used to calculate the impact on liabilities.

- **Balance Sheet Long Term Liabilities – Long Term Provisions**

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
(7,897)	(4,901)	(2,996)	61%

The increase relates to the additional provision being made within the NDR appeals provision. At the end of 2014/15, the Valuations Office agreed to a reduction in the rateable value of medical practises which resulted in a significant decrease for one practise within Shropshire after appeal. Many other medical practises across Shropshire have also submitted appeals at the end of the financial and so provision has been made for a similar level of reduction in rateable value on the basis of the settled case.

- **Balance Sheet Financing – Usable Reserves**

2014/15	2013/14	Increase (Value)	Increase (%)
£000	£000	£000	
78,898	64,191	14,707	23%

The increase in Usable Reserves is predominantly due to an increase in Earmarked Reserves during 2014/15. The most significant contributions to reserves included £4m for IT development, £2.7m in the Invest to Save/Transformation Reserve, £1.8m set aside for the revenue costs of the university project and £1.3m to ensure the Council can fully implement the requirements of the Care Act.

- **Balance Sheet Financing – Unusable Reserves**

2014/15	2013/14	Decrease (Value)	Decrease (%)
£000	£000	£000	
312,161	455,699	(143,537)	32%

The decrease in Unusable Reserves includes the reduction in the Pensions Reserve as described above for the Pensions Liability. In addition to this the Revaluation Reserve has decreased by £12.98m which reflects the movement in asset values and disposals in 2014/15. The main area of decrease was £15.8m written out on disposal of assets, this mainly related to School assets transferred to new Academy Schools. The Capital Adjustment Account has also decreased by £20.3m which reflects the movement in asset values, disposals and capital expenditure financing in 2014/15. The most significant areas of decrease were depreciation & impairment and amounts written out on disposals (again reflecting Academy transfers).

2. The analytical review will be part of the papers to be considered by the external auditors during the annual audit and will be used in forming their opinion on the Statement of Accounts that will be reported in the Audit Opinion and Certificate.

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
25 June 2015	
09:30am	<u>Public</u>

INTERNAL AUDIT ANNUAL REPORT 2014/15

Responsible Officer Ceri Pilawski
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Telephone: 01743 252027

1. Summary

This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2015. It reports on progress against the annual audit plan and contributes to the review of the effectiveness of the Internal Audit team as required by the Accounts and Audit Regulations 2011 6(3). It includes the Audit Service Manager's opinion on the internal controls, as required by the Public Sector Internal Audit Standards (PSIAS), which in turn contributes to the review of the effectiveness of the systems of internal control as required by the Accounts and Audit Regulations 2011 4(2).

Final performance has been good with the revised plan being delivered in excess of the 90% delivery target, in compliance with the Public Sector Internal Audit Standards and to the satisfaction of customers.

Sixty four percent of assurance opinions delivered were good or reasonable, a reduction of 11% compared to last year. Lower levels of assurance were awarded in two main areas; Children's Services (at a number of schools) and Customer Involvement (ICT Infrastructure). In Children's Services the control issues identified are key to school's operational arrangements but do not impact significantly on the Council's assurance framework. The results of the ICT Infrastructure reviews, in terms of overall assurance and direction of travel, remain a concern and, in acknowledging the Council's reliance on these systems, have influenced the year end opinion.

The continuing number of lower level assurances issued on the ICT infrastructure systems, combined with the direction of travel, has resulted in the Audit Service Manager (Chief Audit Executive) having to qualify her overall opinion on the Council's internal control environment. These risks are already known to Directors and Members and are recorded in the strategic risk register. The ICT infrastructure, on which Council applications operate, continues to provide a clear risk to service continuity, and the opinion is qualified to the extent that management must prioritise plans to address the matters raised. In identifying these control weaknesses and highlighting them to management, it should be said that there has been no evidence of significant IT business failure or other error that could result in a material mis-statement in the Council's accounts, and reliance can still be placed upon them for that purpose.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) Performance against the Audit Plan for the year ended 31 March 2015.
- b) That the system of internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2014/15.
- c) The Audit Service Manager's qualified year end opinion on the Council's internal control environment for 2014/15 on the basis of the work undertaken and management responses received.

REPORT

3. Risk assessment and opportunities appraisal

- 3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Council's financial and risk management systems and procedures, and is closely aligned to the Council's strategic and operational risk registers. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examine, evaluate and report on the adequacy of its customers' control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying areas for improvement or potential weaknesses, and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal control creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected, leading to financial loss and reputational damage.
- 3.2 Internal Audit operates a strategic risk based plan. This approach to audit planning has been referenced in CIPFA's "It's a Risky Business 2014" publication as an example of best practice. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. This results in a comprehensive range of audits being undertaken in the year, which support the overall opinion on the control environment. The plan contains a contingency provision which can be utilised during the year to respond to unforeseen work demands that may arise, i.e. special investigations and advice.
- 3.3 The next twelve months continues to see the need to deliver significant budget savings as the Council maintains its journey towards a commissioner of services. The delivery of services in ip&e and other delivery models, requiring major changes to systems, processes, structures and governance models, which will impact on the internal control environment. The management of risk will play a key role in delivering the Council's Business Plan and Financial Strategy. Internal Audit will need to reflect the Council's needs and be resourced and skilled appropriately to continue to provide the appropriate level of advice and assurance on the effectiveness of the internal control environment during this ongoing period of major change and high risk.

- 3.4 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.5 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.6 Internal Audit customers are consulted on the service that they receive. Feedback is included in this report and continues to be very positive.

4. Financial implications

- 4.1 The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the wider Council and its associated budgets.

5. Background

- 5.1 This report is the culmination of the work of the Internal Audit team during 2014/15 and seeks to provide:
- An update on the internal audit work undertaken
 - An annual opinion on the adequacy of the governance arrangements
 - Benchmarking information
 - Information on the performance of Internal Audit, and
 - Review of the effectiveness of Internal Audit work by the Audit Committee.
- 5.2 As the Accountable Officer, the Section 151 Officer has responsibility for maintaining a sound system of internal control that supports the achievement of the Council's policies, aims and objectives, whilst safeguarding the Council's assets, in accordance with local government legislation. This includes section 151 of the Local Government Act 1972 which requires the Council to make arrangements for the proper administration of its financial affairs.
- 5.3 The Accounts and Audit Regulations 2015 have been issued and apply from the start of the financial year 2015/16. The existing requirement, to have internal audit undertake an effective internal audit of accounting records and systems of internal control in accordance with proper practices, has been updated to: 'evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. There are some changes to the access rights of internal audit requiring the organisation to supply any documents, records and information and explanations as are considered necessary by the internal auditors. In addition, organisations are no longer required to undertake an annual review of effectiveness, although audit committees should note the requirements of the Public Sector Internal Audit Standards to maintain an ongoing programme of quality assessment and improvement.

Scope and purpose of Internal Audit

- 5.4 The Public Sector Internal Audit Standards define the scope of the annual report on internal audit activity. The annual report should include an assessment as to the extent to which compliance with the Standards has been achieved. This annual report provides information to support the assessment that an effective internal audit is

established at the Council. This is in accordance with the requirements of the 2011 Accounts and Audit Regulations in that “a relevant body must undertake an adequate and effective internal audit of its accounting records and systems of internal control in accordance with the proper practices in relation to internal control”.

- 5.5 The purpose of internal audit is to provide the Council, through the Audit Committee, and the Chief Executive and Section 151 Officer, with an independent and objective opinion on risk management, control and governance, and their effectiveness in achieving Council agreed objectives.
- 5.6 This opinion forms part of the framework of assurances received by Council and should be used to help inform the Annual Governance Statement. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance and control.

Performance against the plan 2014/15

- 5.7 The Internal Audit Plan 2014/15 was considered and approved by Audit Committee at the meeting on the 27 March 2014. The Plan provided for a total of 2,060 days. Revisions throughout the year to reflect changing risks and resources were reported to Audit Committee and the plan revised to a target of 2,147 days. Final performance has been good and remains in excess of the target to deliver 90% of the annual plan. **Appendix A, Table 1.**
- 5.8 The audit findings and performance of audit have been set out in summary reports which have been presented to the Audit Committee during the course of the year. In total 141 final reports have been issued in 2014/15. These are broken down by service area in **Appendix A, Table 2.**
- 5.9 Ninety good and reasonable assurances were made in the year accounting for 64% of the opinions delivered. This represents an 11% reduction in the higher levels of assurance compared to the previous year, offset by an 11% increase in limited and unsatisfactory opinions. Eleven unsatisfactory opinions and 40 limited assurance opinions were issued, 36% in total, compared to 25% last year.
- 5.10 The service areas; Children’s Services and Customer Involvement showed lower assurance levels than others. Children’s Services reviews included a number of schools that are considered low risk to the Council overall and will therefore not affect the Audit Service Manager’s overall year-end opinion. To help improve the control environment in schools, auditors have been providing support and information to head teachers, teachers, administrators and governors in best practice controls through a number of forums and area meetings. Customer Involvement service reviews include a number of ICT infrastructure reviews. The results of these have been considered by officers and members, and the overall assurance and direction of travel remains a concern given the systems’ overall impact on delivering the Council’s objectives. This issue is referred to again later in this report.
- 5.11 Within the Audit Plan there are 11 reviews categorised as fundamental, high risk business critical systems. In addition to providing assurance on internal controls, these reviews complement the work of the Council’s external auditors and help to avoid unnecessary duplication of work between the two audit services. Given their high risk

and importance to the business, areas are audited annually and have a strong influence in informing the Annual Governance Statement. A summary of the level of assurance for each fundamental review area together with the number of recommendations made is shown in **Appendix A, Table 3**.

- 5.12 From the table it can be seen that Sales Ledger attracted an unsatisfactory level of assurance prompted by the lack of debt management policy and supporting debt collection activities.
- 5.13 Where draft reports have been issued and management responses are awaited, these will be included in 2015/16 figures. Work has also been completed for external clients in addition to the drafting and auditing of financial statements in respect of schools, honorary and voluntary bodies.
- 5.14 A summary of the reviews conducted, resulting in an unsatisfactory or limited assurance since the last report, in February 2015 is included in **Appendix A, Table 4**. The Appendix also includes descriptions for the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 5 and 6**.
- 5.15 A total of 1,389 recommendations have been made in the 141 final audit reports issued in the year; these are broken down by audit area and appear in **Appendix A, Table 7**.
- 5.16 The number of fundamental recommendations has fallen from 18 to six compared to last year; overall this represents 1% of the total number of recommendations made. Fundamental recommendations were made on the following audits:
- Oldbury Wells School
 - Lotus Notes - Decommissioning
 - Disposal of IT Equipment (two)
 - Business Continuity and Disaster Recovery
 - Physical and Environmental Controls

The percentage of significant recommendations has risen compared to last year with a corresponding fall in best practice and requires attention categorised recommendations.

- 5.17 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. With the exception of annual audits where recommendations are revisited as a matter of course, recommendations are followed up after six months by obtaining an update from management on progress made.
- 5.18 Seven recommendations, equivalent to 0.5% of all recommendations made, have been rejected by management. All rejected recommendations have been discussed with the managers concerned. In three cases the reasons for rejection are not accepted by Internal Audit, and it is considered that the identified risk is not being managed or mitigated. These are in relation to:
- Complying with the European Working Time Directives in respect of taking unpaid lunch breaks;
 - Requesting from providers of adult care, details of complaints in accordance with contractual requirements to ensure they are satisfactorily resolved;
 - Conducting regular meetings with service providers (contractors) to consider, review and discuss performance issues.

No fundamental recommendations have been rejected.

- 5.19 The work undertaken on the fundamental financial systems summarised in **Appendix A, Table 3**; has revealed one unsatisfactory assurance opinion. However, the direction of travel for all other audit reviews previously given limited opinions has been positive and overall across all systems, assurance remains high.
- 5.20 Given the significance of the ICT infrastructure controls in terms of supporting the Council's fundamental systems (including financial systems), the Audit Service Manager considers the control issues identified sufficient to warrant qualifying the annual audit opinion. Such is the concern, that the qualification records that positive responses to addressing the issues must become a management priority. These issues were already recognised and recorded as high strategic risks, and are reflected in the Annual Governance Statement with a specific action for improvement. Throughout the year Audit Committee have sought independent assurances from key officers and, whilst plans have been adopted to manage outstanding control issues, only limited progress on improvement can be evidenced. IT audit reviews conducted during the year receiving unsatisfactory or limited assurances include:
- Disposal of IT equipment
 - Helpdesk procedures
 - IT Business support
 - Project management arrangements
 - Business continuity and disaster recovery
 - Corporate networking – active directory
 - Hosted services
 - ICT project financing and recharges
 - ICT registration and deregistration procedures
 - Network perimeter defences
 - Physical and Environmental controls
 - Back up arrangements
 - Software inventories/ licensing
 - Voice over IP

An annual opinion on the adequacy of the governance arrangements

- 5.21 In considering an annual audit opinion, it should be noted that assurances given can never be absolute. The internal audit service can however provide the Council with a reasonable assurance that no major weaknesses can be found in risk management, governance and control processes.
- 5.22 The matters raised in this report are only those which came to Internal Audit's attention during its internal audit work and are not necessarily a comprehensive statement of all weaknesses that exist, or of all the improvements that may be required.
- 5.23 In arriving at my opinion, the Audit Service Manager has taken the following matters into account:
- Results of all audits undertaken during the year ended 31 March 2015;
 - Results of Corporate Governance and Risk Management reviews (reasonable assurance);
 - Results of fundamental audit reviews and their direction of travel;

- Implementation of recommendations of a fundamental nature;
- Assurance levels provided and their direction of travel, and those of the recommendation ratings, compared against the risk appetite of the Council.
- Whether any fundamental or significant recommendations have not been accepted by management and the consequent risks;
- Effects of any material changes in the organisation’s objectives or activities;
- Matters arising from previous reports to the Audit Committee and/or Council;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed which may have impinged on Internal Audit’s ability to meet the full internal audit needs of the Council; and
- Proportion of the Council’s internal audit needs that have been covered to date.

5.24 All assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

On the basis of the work undertaken and management responses received; the Audit Service Manager has qualified her overall opinion on the Council’s internal control environment. This is based primarily on the continuing numbers, and negative direction of travel, of the internal audit assurances provided on the IT infrastructure systems. These risks are already known to Directors and Members and are reflected in the strategic risk register. The IT infrastructure on which Council applications operate continues to present a clear risk to service continuity. The issues identified are sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their plans to address the matters raised. Whilst identifying these control weaknesses and highlighting them to management, it should be said, there has been no evidence of significant IT business failure or other error that could result in a material misstatement in the Council’s accounts and reliance can still be placed upon them for that purpose.

Direction of travel

5.25 This section compares the Assurance Levels (where given) and categorisation of recommendations made at the Council to demonstrate a direction of travel in relation to the control environment.

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
2014/15	17%	47%	28%	8%	100%
2013/14	30%	45%	15%	10%	100%
2012/13	31%	56%	12%	1%	100%

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2014/15	6%	53%	40%	1%	100%
2013/14	15%	57%	27%	1%	100%
2012/13	23%	57%	20%	0%	100%

The statistics suggest a falling level of overall control demonstrated by the increased number of lower level assurances and higher recommendation categorisations awarded.

Audit performance

- 5.26 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards, benchmarking the service against others in the sector and evaluating improvements made over the previous twelve months. The effectiveness of Internal Audit is further reviewed through the Audit Committee's delivery of its responsibilities and feedback gained from customer satisfaction surveys.

Aspect of measure	Target 2014/15	Actual 2014/15
Percentage of revised plan delivered	90%	101%
Compliance with Public Sector Internal Audit Standards	Compliant	Compliant
Percentage of customers satisfied overall with the service	80%	88%

- 5.27 An annual self-assessment of compliance with the Public Sector Internal Audit Standards is conducted. The self-assessment forms part of another report on this agenda: Annual review of the effectiveness of Internal Audit 2014/15.
- 5.28 A customer feedback survey form is sent out with the majority of audits completed. These provide feedback on the quality of the service and play a key part in ensuring audit work meets client expectations and the quality of audit work is maintained. The percentages of excellent and good responses for the last four years are detailed in **Appendix A, Table 8**.
- 5.29 During the last year a number of compliments and comments have been received in respect of the audit service from both questionnaires and directly, these appear in **Appendix A, Table 9**. The vast majority of comments have been very positive reflecting the hard work the team devote to establishing a good professional relationship with clients. All critical comments are followed up with the author to identify where lessons can be learnt and improvements made.
- 5.30 Internal Audit employ a risk-based approach to determining the audit needs of the Council at the start of the year and use a risk-based methodology in planning and conducting audit assignments. All work has been performed in accordance with PSIAS.

- 5.31 In order to ensure the quality of the work performed, a programme of quality measures is used, which includes:
- Supervision of staff conducting audit work;
 - Review of files of working papers and reports by managers and partners;
 - Receipt of formal feedback from managers to audit findings and recommendations;
 - Follow up reviews for reports attracting low assurance levels and recommendation follow up processes;
 - The use of satisfaction surveys for each completed assignment;
 - Annual appraisal of audit staff and the development of personal development and training plans;
 - The maintenance of guidance and procedures.
- 5.32 There have been no instances during the year which have impacted on Internal Audit's independence and/or have led to any declarations of interest.

Performance measures

- 5.33 All Internal Audit work has been completed in accordance with the agreed plan and the outcomes of final reports have been reported to the Audit Committee.

Review of the effectiveness of Internal Audit work by the Audit Committee

- 5.34 The Council has a well-established Audit Committee, which operates in accordance with best practice. Its terms of reference and associated working practices are aligned with those suggested by CIPFA and are reviewed annually. Its members receive regular training on the role of the committee and how they can best support this, as well as the roles of internal and external audit. It undertakes an annual self-assessment exercise and seeks to improve the way in which it operates.
- 5.35 The Committee provides an Annual Assurance Report to Council to summarise its work and opinion on internal controls. This report is also located on this agenda.
- 5.36 The Council's Audit Committee considers external and internal audit reports and the Committee requests management responses to any significant issues reported, including reporting the progress made in implementing audit recommendations. Senior officers have attended the Audit Committee to provide management responses in relation to a number of reports. Examples of audit work and remedial action that have been scrutinised by the Audit Committee include reports on ICT disaster recovery and business continuity, implementation of ICT control improvements, council tax and national non domestic rates performance, benefit fraud investigations and overpayments, and programme management controls and risks, including contract health checks.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Draft Internal Audit Risk Based Plan 2014/15 - Audit Committee 27 March 2014
Internal Audit Plan 2014/15 – Performance Report - Audit Committee 18 September 2014
Internal Audit Plan 2014/15 – Performance Report - Audit Committee 27 November 2014
Internal Audit Plan 2014/15 – Third Quarter Report - Audit Committee 23 February 2015

Public Sector Internal Audit Standards (PSIAS).
Various internal documents supporting self-assessment against the PSIAS.
Audit Management system.
Accounts and Audit Regulations 2015

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee

Local Member: All

Appendices

Appendix A

Table 1: Summary of actual audit days delivered against plan 2014/15

Table 2: Final audit report assurance opinions issued in 2014/15

Table 3: Audit opinion and recommendations made on fundamental systems 2014/15

Table 4: Unsatisfactory and limited assurance opinions since February 2014 listed by service area

Table 5: Audit assurance opinions

Table 6: Audit recommendation categories:

Table 7: Audit recommendations made in 2014/15

Table 8: Customer Feedback Survey Forms

Table 9: Summary of compliments and comments 2014/15

Appendix B - Audit plan by service – annual report 2014/15

Table 1: Summary of actual audit days delivered against plan 2014/15

	Original Plan	Revised Plan	March Actual	% of Original Complete	% of Revised Complete
Chief Executive	18	36	32.9	183%	91%
Adult Services	113	120	116.6	103%	97%
Commissioning	104	101	92.4	89%	91%
Children's Services	245	300	302.9	124%	101%
Public Health	30	18	17.9	60%	99%
Resources and Support	636	556	521.6	82%	94%
S151 Planned Audit	1,146	1,131	1,084.3	95%	96%
Contingencies and other chargeable work	649	755	808.1	125%	107%
Total S151 Audit	1,795	1,886	1,892.4	105%	100%
External Clients	265	261	268.8	101%	103%
Total	2,060	2,147	2,161.2	105%	101%

Please note that a full breakdown of days by service area is shown at **Appendix B**

Table 2: Final audit report assurance opinions issued in 2014/15

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	0	0	0	0
Adult Services	14	21	10	1	46
Commissioning	1	5	2	0	8
Children's Services	4	11	11	5	31
Public Health	0	2	0	0	2
Resources and Support					
Commercial Services	1	1	1	0	3
Customer Involvement	0	13	13	4	30
Finance, Governance and Assurance	4	10	1	0	15
Human Resources	0	2	1	1	4
Legal, Strategy and Democratic	0	1	1	0	2
Total for 2014/15					
Numbers	24	66	40	11	141
Percentage	17%	47%	28%	8%	100%

Table 3: Audit opinion and recommendations made on fundamental systems 2014/15

Fundamental system	Direction of travel	Level of assurance given	Number of recommendations made			
			BP	RA	S	F
Purchase Ledger	↑	Reasonable	0	9	2	0
Sales Ledger	↓	Unsatisfactory	0	11	6	1
General Ledger	=	Good	0	5	0	0
Income Collection	↓	Reasonable	0	11	3	0
Payroll System	↑	Reasonable	0	15	4	0
Council Tax	=	Reasonable	0	4	3	0
NNDR Collection	=	Reasonable	0	5	3	0
Housing Benefits	=	Reasonable	3	3	1	0
Treasury Management	=	Good	1	3	0	0
Capital Accounting System	=	Good	1	0	0	0
Risk Management	↓	Reasonable	1	0	1	0

Table 4: Unsatisfactory and limited assurance opinions since February 2014 listed by service area

Unsatisfactory assurance

Children’s Services

St Lawrence CE Primary School, Church Stretton

Commissioning

Council’s governance arrangements for ip&e Ltd

Limited assurance

Adult Services

Albert Road Day Centre Comforts Fund

Commissioning

CONFIRM – Highways Management System

Housing ALMO / STAR

Children’s Services

Belvidere Primary School

Hope CE Primary School

Customer Involvement

Back-up Arrangements

Software Inventories / Licensing

Voice Over IP

Table 5: Audit assurance opinions: awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.

Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

Table 6: Audit recommendation categories: an indicator of the effectiveness of the Council's internal control environment and are rated according to their priority

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

Table 7: Audit recommendations made in 2014/15

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	0	0	0	0	0
Adult Services	26	142	71	0	239
Commissioning	5	33	14	0	52
Children's Services	17	390	290	1	698
Public Health	0	2	5	0	7
Resources and Support					
Commercial Services	1	3	7	0	11
Customer Involvement	27	82	102	5	216
Finance, Governance and Assurance	10	67	29	0	106
Human Resources	0	17	28	0	45
Legal, Strategy and Democratic	0	4	11	0	15
Total for 2014/15					
Numbers	86	740	557	6	1389
Percentage	6%	53%	40%	1%	100%

Table 8: Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2011/12	2012/13	2013/14	2014/15	Direction of Travel
Pre-audit arrangements	98%	97%	96%	96%	↔

Post-audit briefing	96%	99%	93%	97%	↑
Audit coverage/scope of the audit	100%	99%	95%	100%	↑
Timeliness of production of report	95%	94%	90%	88%	↓
Accuracy and clarity of report	99%	96%	94%	94%	↔
Practicality of recommendations	93%	84%	82%	87%	↑
Professionalism of approach	100%	99%	97%	100%	↑
Communication skills	99%	99%	97%	100%	↑
Timeliness, competence, manner	100%	97%	91%	90%	↓
Number of forms returned	84	96	77	69	
% of forms scored as excellent and good	98%	96%	93%	95%	↑

Table 9: Summary of compliments and comments 2014/15

Service has been great, the Auditor coming for sessions with us to look at new procedures following last audit and giving advice. This is invaluable to us, thank you.

As ever, the Internal Audit section have carried out their duties very well. Any issues that were identified were fully discussed before any recommendations were made. This opportunity for interaction between myself and the auditors with regard to potential issues key to a successful audit.

Whilst the auditor was extremely efficient it would have been more worthwhile to have had some ongoing feedback during the audit so that recommendations could have been actioned immediately. It has taken from January to May for our draft audit to appear, in this time we could have implemented all recommendations. The Auditor said the school would not be audited for another 5 years - it would be more beneficial to have a 'light touch' audit every 2 years.

We had rather a long wait between the audit being carried out and actually receiving the report, however I do understand that there have been staff absences etc.

The Auditor has been a pleasure to work with throughout the whole of the process, professional and personable in equal measure with the right balance between challenge and recognition of the challenges we are working with. The audit has been a great help to us. My only negative comment would be with regard to the length of time we had to wait for production of the final report but I

We provide feedback verbally at the end of the fieldwork.

We agree that the time between fieldwork and production of reports is sometimes unreasonably delayed. This has been due to resource issues and new roles and responsibilities within the team. We are looking at a different approach to speed this process up.

It is recognised that that a more frequent auditing process would help some schools in their improvement plans, however with current resources and pressures on budgets this is unachievable. We are happy to provide advice in the interim period on request.

understand the reasons for this and would certainly not want this to detract from our overall satisfaction with the process

Report delayed due to workload. Timeliness to business due to Head not being available due to exam cover which was not mentioned when booking audit.

Clients are contacted in advance to arrange a mutually convenient time and as resources allow, we try to fit in with everyone

The Auditor was extremely good at putting staff at ease and making the audit a helpful experience and not a stressful one.

The report has been very useful for bringing pressure to bear on other directions around space allocation and layout. It has been a good procedural health check and whilst some of the points raised are outside of our control to an extent we have been able to sharpen the processes we do control.

We have a few areas that we are not able to implement because of the system. The previous comments should be assessed before the audit so that we can avoid unnecessary duplication. I still think that the recommendations part of the audit could be clearer to aid discussions with managers regarding improvements that are needed.

Our approach is to aid managers and auditors are keen to explain and work through any control issues that may be initially unclear

Overall, we were very pleased with the way in which the audit was conducted. The Auditor's approach was very professional and the Administrator and Head both felt that the process was fair and did not put any extra undue pressure on the school. However, governors felt that some of the recommendations within the audit plan had already been addressed and this has been communicated to the Auditors within the process and at the final briefing.

Whilst improvements may be made during and after the process, the samples used at the time of the audit support the recommendations and without re-running the tests once changes are made, the auditor is unable to independently verify such improvements. As long as managers are working and delivering on these, governors can gain confidence from them that improvements are underway which will of course be evidenced in any future audit.

We had the previous audit in March 2014, so to have one in November 2014 was too short a timeframe. I would suggest that these are held no more than bi-annually.

We agree that the audits when looking at dates were too close together. However, this was agreed with the commissioner of the service to fit around their business needs and the frequency of the audits are based on the client's risk analysis. It is normal practice to complete audits at least twelve months apart.

Practicality was rated as reasonable on basis recommendations need to take into account restructuring of team/service.

Thank you for such a pleasant, stress free audit, you certainly put us at ease.

I have always found the staff involved with performing the audit to be professional yet approachable and sensitive to the context of the school. I understand that the audit is an official document, and as such is impersonal and doesn't always reflect the level of discussion behind the findings.

We recognise that audit reports are on an exception basis and as such do not allow for such discussions to be reflected. They have been designed with the busy manager in mind who require a quick update on what the audit has found but it is accepted this approach can appear impersonal. It would be hoped that the auditors' skills in briefing managers helps to soften this approach.

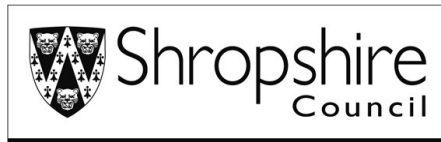
AUDIT PLAN BY SERVICE – ANNUAL REPORT 2014/15

	Original Plan Days	Revised Plan Days	March 31 Actual	% of Original Plan	% of Revised Plan
CHIEF EXECUTIVE					
GOVERNANCE	18	36	32.9	183%	91%
ADULT SERVICES					
Social Care Operations					
Provider Services - Comforts Funds	8	17	17.6	220%	104%
Provider Services - Establishments	6	7	7.3	122%	104%
Provider Services - Group Homes	8	11	11.4	143%	104%
Provider Services - Trading Accounts	2	5	5.0	250%	100%
Development Support	8	0	0.0	0%	0%
Long Term Support	81	80	75.3	93%	94%
ADULT SERVICES	113	120	116.6	103%	97%
COMMISSIONING					
Waste Services	10	14	13.7	137%	98%
Business & Enterprise	10	0	0.0	0%	0%
Highways & Transport	14	17	14.4	103%	85%
Development Management	9	10	11.0	122%	110%
Visitor Economy	5	0	0.0	0%	0%
Environmental Health	5	6	5.6	112%	93%
Housing Services	51	54	47.7	94%	88%
COMMISSIONING	104	101	92.4	89%	91%
CHILDREN'S SERVICES					
Assessment & Looked After Children	0	16	18.5	0%	116%
Children's Placement and Joint Adoption	27	9	8.7	32%	97%
Business Support	22	9	5.7	26%	63%
Children's Placement and Joint Adoption	15	15	4.1	27%	27%
Education Improvements	31	26	25.2	81%	97%
Primary/Special Schools	115	162	175.9	153%	109%
Secondary Schools	35	63	64.8	185%	103%
CHILDREN'S SERVICES	245	300	302.9	124%	101%

	Original Plan Days	Revised Plan Days	March 31 Actual	% of Original Plan	% of Revised Plan
RESOURCES AND SUPPORT					
Commercial Services					
Estates & Facilities	5	5	5.3	106%	106%
Property Services	25	13	14.1	56%	108%
Shire Services	8	1	1.4	18%	140%
	38	19	20.8	55%	109%
Customer Involvement					
Benefits	30	24	23.7	79%	99%
Customer Services	12	14	12.7	106%	91%
ICT Implementation & Architecture	45	41	40.8	91%	100%
ICT Operations	128	141	135.7	106%	96%
	215	220	212.9	99%	97%
Finance Governance & Assurance					
Finance Transactions	63	41	37.4	59%	91%
Financial Advice (S.151)	69	40	31.6	46%	79%
Financial Management	73	83	79.6	109%	96%
Procurement	40	22	22.0	55%	100%
Revenues	40	40	38.2	96%	96%
Risk Management and Business Continuity	5	5	2.6	52%	52%
Treasury	16	16	8.6	54%	54%
	306	247	220.0	72%	89%
Human Resources					
Payroll and Human Resources	57	67	64.9	114%	97%
Legal, Strategy and Democratic					
Democratic Services	2	0	0.0	0%	0%
Election Services	4	0	0.1	3%	0%
Information Governance	4	3	2.7	68%	90%
Legal Services	10	0	0.2	2%	0%
	20	3	3.0	15%	100%
RESOURCES AND SUPPORT	636	556	521.6	82%	94%
Total Shropshire Council Planned	1,146	1,131	1,084.3	95%	96%

	Original Plan Days	Revised Plan Days	March 31 Actual	% of Original Plan	% of Revised Plan
CONTINGENCIES					
Advisory Contingency	40	40	48.2	121%	121%
Fraud Contingency	200	250	279.3	140%	112%
Transformation Projects	100	130	128.8	129%	99%
Unplanned Audit Contingency	49	49	49.9	102%	102%
Other non audit Chargeable Work	260	286	301.9	116%	106%
CONTINGENCIES	649	755	808.1	125%	107%
TOTAL FOR SHROPSHIRE	1,795	1,886	1,892.4	105%	100%
EXTERNAL CLIENTS	265	261	268.8	101%	103%

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
25th June 2015	
9:30am	<u>Public</u>

REVIEW OF SHROPSHIRE COUNCIL'S CODE OF CORPORATE GOVERNANCE 2014/15

Responsible Officer Pete Chadderton
e-mail: Peter.chadderton@shropshire.gov.uk Tel: 01743 252773

1. Summary

Shropshire Council is committed to the principles of good corporate governance. The attached review of Shropshire Council's Code of Corporate Governance was developed using the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) guidance and clearly identifies how, as a Council, we achieved effective corporate governance in 2014/15. Compliance with our Governance Code supports the Council's review of the effectiveness of its system of internal controls as required by the Accounts and Audit Regulations 2011 4(2). This in turn informs the Annual Governance Statement which accompanies the Annual Statement of Accounts, signed by the Leader of the Council and the Head of Paid Service.

2. Recommendations

The Committee is asked to consider and approve, with appropriate comment, the Internal Audit conclusion that the Council has very strong compliance with the Code of Corporate Governance. The detailed code, incorporating evidence, is contained in **Appendix A**.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Corporate Governance is part of the overall internal control framework and contributes to the Council's strong governance arrangements.

- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.3 There are no environmental consequences of this proposal and consultation has been used to inform the review of the Code of Corporate Governance by seeking assurances and evidence from senior officers as to the effectiveness of internal controls and governance processes.

4. Financial Implications

- 4.1 There are no financial implications arising from this report.

5. Background

- 5.1 The Audit Committee's terms of reference include a requirement to review and report on the adequacy of the Council's Corporate Governance arrangements. This report looks at the Corporate Governance arrangements we had in place for last year to enable the Audit Committee to deliver its year end assurance report.
- 5.2 The Shropshire Council Code of Governance forms part of the Constitution. Internal Audit have completed a review of the code and examined the relevant evidence to assess whether the Council has followed its adopted code of governance.
- 5.3 The CIPFA/SOLACE guidance entitled "Delivering Good Governance in Local Government – Framework" contains six core principles, each of which is supported by sub-principles to provide a governance framework. The guide identifies best practice for authorities to adopt when establishing their own local Code of Corporate Governance. Shropshire Council's Code of Corporate Governance is entirely based on this and further guidance provided in the CIPFA "Delivering Good Governance in Local Government: Framework Addendum 2012".
- 5.4 The fundamental principles of Corporate Governance are: Openness and Inclusivity, Integrity and Accountability. These principles are entirely consistent with the Council's values. The six core principles identified in The CIPFA/SOLACE guidance are:

Focussing on the purpose of the authority and on outcomes for the community and, creating and implementing a vision for the local area.

Members and Officers working together to achieve a common purpose with clearly defined functions and roles.

Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

Developing the capacity and capability of members and officers to be effective.

Engaging with local people and other stakeholders to ensure robust public accountability.

- 5.5 Under each of the six core principles and their sub-principles the audit review of the code shown at **Appendix A** demonstrates how we address and meet these principles in accordance with the best practice identified by CIPFA/SOLACE.
- 5.6 The Monitoring Officer and Section 151 Officer are responsible for ensuring an annual review of compliance with this Code and Internal Audit independently reviews the governance process. The results of this review are included in the Audit Service Manager's annual report and form a part of the overall assurance for the Annual Governance Statement.
- 5.7 On a practical basis, the Code contains a corporate governance map defining our framework by reference to key processes, procedures and documents which contribute to our aspiration of excellent corporate governance in Shropshire. This is felt to be a very useful way of illustrating how the Council achieves good corporate governance.

6. Conclusion

- 6.1 The Council's formally adopted Code of Corporate Governance is fully compliant with CIPFA/SOLACE guidance. The Code was reviewed to determine whether the Council complied with the approved Code of Corporate Governance; the evidence in Appendix A demonstrates very strong compliance and no material breaches of the Code were identified.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p>
<p>CIPFA / SOLACE: Guidance Note – Delivering Good Governance in Local Government – Framework.</p> <p>CIPFA/SOLACE: Application Note to Delivering Good Governance in Local Government: a Framework 2010.</p> <p>CIPFA: Delivering Good Governance in Local Government: Framework Addendum 2012</p>
<p>Cabinet Member (Portfolio Holder) Keith Barrow, Leader of the Council, and Brian Williams, Chairman of Audit Committee.</p>
<p>Local Member All Members.</p>
<p>Appendices Appendix A – Code of Corporate Governance.</p>

SHROPSHIRE COUNCIL
CODE OF CORPORATE GOVERNANCE

Introduction

Shropshire Council is committed to the principles of good corporate governance which are set out in a Code of Corporate Governance based on the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) document entitled "Delivering Good Governance in Local Government – Framework". The Shropshire Code of Corporate Governance forms part of the Constitution and applies to all aspects of the Council's business.

Corporate governance in Shropshire is the systems and processes, culture and values, by which we, the local Council, direct, monitor and control our functions and account to, engage with and, where appropriate, lead our community. Put simply, good governance enables us to do the right things in the right way, for the right people in a timely, inclusive, open and accountable manner.

The Council is dependent on our members and staff delivering excellent corporate governance which requires them to conduct themselves in accordance with the high standards expected by the citizens of Shropshire.

The fundamental principles of corporate governance are openness and inclusivity, integrity and accountability. The CIPFA/SOLACE document identifies six core principles supported by numerous sub principles to the corporate governance framework. Our code includes the documents, systems, processes and actions the Council undertake to fulfil our commitment to, and compliance with, the code.

The Cabinet, in consultation with the Audit Committee is responsible for approving this Code and the Head of Paid Service and Monitoring Officer are responsible for ensuring that it is kept up to date by reviewing it annually.

The Monitoring Officer and Section 151 Officer are responsible for ensuring an annual review of compliance with this Code and Internal Audit will independently audit the process. The results of this review will be included in the Audit Service Manager's annual report and form a part of the overall assurance for the Annual Governance Statement signed by the Leader and the Head of Paid Service.

On a practical basis, the Code contains a corporate governance map at **Appendix 1** defining our governance framework by reference to key processes, procedures and documents which contribute to our aspiration of excellent corporate governance in Shropshire.

There is a copy of the Code of Corporate Governance in the Constitution (Pages 100 to 106). There have been no proposed changes to the format of this from recognised bodies.

Principle1 - Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

1.1. Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcomes for citizens and service users.

1.1.1. Develop and promote the authority's purpose and vision.

The Council has integrated and implemented its Business Plan and Financial Strategy 2014-17. The refresh has enabled the Business Plan and Financial Strategy 2014-17 to reflect progress and changes in its redesign of services, helping to keep the Council flexible and responsive to emerging local issues and significant national developments such as the Care Act.

The Council is focused on the delivery of its outcomes and the refreshed Business Plan and Financial Strategy 2014-17 progresses this and builds on the bottom up development; focused on the needs and outcomes required by the Council's customers which underpinned the 2014/15 version.

—————A revised performance framework was developed with elected Members during early 2014 and was implemented from quarter one 2014/15. The framework is structured around the Council's outcomes and uses dashboards to provide a visual picture of progress around a focused number of measures. The revised approach has been well received, and brings appropriate levels of information and detail to the attention of different audiences using infographics to provide a higher level view and graphs and charts to display more complex data.-

Quarterly reporting is presented to Cabinet and Scrutiny committees, sharing progress and exceptions relating to the delivery of the Council's outcomes. The more detailed dashboards are presented to Scrutiny committees to support them to drill down into specific issues and identify lines of enquiry. Work also takes place with individual Scrutiny committees such as the Health and Adult Social Care Scrutiny committee, to help them identify measures and information that they would like to receive in performance reporting to enable them to provide effective challenge and change, and understand the impact of commissioning decisions such as those taken by Cabinet.

Areas where reported performance raises concerns are highlighted in the quarterly reports and monitored, as recommended by Cabinet e.g. that the portfolio holder and director report back to Cabinet with an action plan to bring performance back to the expected standard. Cabinet may refer issues of continuing concern to Scrutiny for review.

1.1.2. Review on a regular basis the authority's vision for the local area and its impact on the authority's governance arrangements.

Members from the Health and Adult Social Care Scrutiny Committee have worked with Officers from the service area and the Performance Team to understand the new operating model for adult social care and to identify the measures which should be used for 2015/16 onwards. As with the Council's performance framework introduced in April 2014, the visual and written presentation of the information using infographics, graphs and charts is also being shaped with the input of the elected Members.

The Local Code of Corporate Governance is reviewed annually and reported to Audit Committee.

Planning for the future and ensuring that the direction of travel delivers the Council's outcomes and priorities is vitally important, especially as the speed of change required to deliver different service models within tightening financial resources over the next few years is gathering pace. The Council is progressing in becoming a Commissioning Council, and is developing structures and arrangements to manage the very different role. For example, performance measurement and reporting will move closer to and support contract management and focus on the impact of commissioning decisions. This will also enable the Council to understand whether it is achieving the impact it is expecting through its commissioning decisions.

The Council adopted a new Commissioning Strategy, "Commissioning for the Future" in July 2014. The strategy sets out how the Council is transforming into a commissioner rather than a direct deliverer of services and the principles that will be adopted in that approach.

1.1.3. Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners.

The Shropshire Compact is a set of shared principles and guidelines for effective partnership working between Shropshire's public sector bodies and the Voluntary and Community Sector (VCS). It acts as guidance to ensure shared understanding of responsibilities and obligations and work towards best practice in partnership arrangements. A Compact Group leads compact work for the County (see Compact web pages: <http://vcsvoice.org/the-compact/>). The Shropshire VCS Assembly also ensures the Compact is integrated into cross-sector policy and projects.

The Shropshire VCS Assembly is well established as the voice of the voluntary and community sector in Shropshire. The Assembly has around 300 members with a Board and 16 forums of interest. Forums of interest are groups of voluntary and community sector organisations with a common interest (for example heritage, arts, disability, health and social care, housing, mental health, older people etc.). The Assembly undertakes regular communication activity to

involve its members in events, tender opportunities, consultations and to promote funding opportunities.

The VCS Assembly works to develop new policy and guidance designed to establish a common vision and set out new partnership approaches and expectations. Public sector representatives join the VCS Assembly Board regularly in addition to supporting joint work through task groups.

A grant awarded to the Shropshire VCS Assembly allowed three projects to be completed:

- The development of Shropshire Providers Consortium: a Community Interest Company established to facilitate joint bidding for public sector contracts and funding opportunities. Membership is open to any member of the Shropshire VCS Assembly. Membership has been growing rapidly and the consortium has achieved success in a range of partnership bids. See: <http://www.shropshireprovidersconsortium.co.uk/>
 - Support for the VCS Assembly's Forums of Interest to enable greater collaboration within the voluntary and community sector and to encourage partnership working between sectors. Events, training, communication and other forms of support have been made widely available. The number of Forums increased as a result of the project.
 - The development of ShropShare: a hub for socially responsible businesses to come together and work in partnership with local voluntary and community sector groups and organisations. See: <http://shropshare.org/>
- Over the last six months Shropshire Council and representatives from the VCS Assembly Board have been working together as part of a 'Change Group' to consider key areas of change and shape a way forward as new policies are implemented and new commissioning approaches are adopted.

1.1.4. Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance.

An audited and signed Statement of Accounts is published on an annual basis containing:

- A statement of responsibilities for the Statement of Accounts.
- A statement of the Council's accounting policies.
- An Annual Governance Statement signed by the Leader of the Council and the Head of Paid Service.

1.2. Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning.

1.2.1. Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available.

Specific service areas seek customer feedback both through systematic customer feedback and through annual surveys. For example the Adult Social Care Survey continues to engage with service users. The results help us to understand and evidence what has been achieved for local people, supporting local service and enabling people to make better choices about care and the Council is using the 'Making It Real' approach, to check progress towards this.

A survey targeting carers is carried out every other year. The results tell us what is working well and where improvements can be made to ensure that our resources are being used to their full potential.

The Council also works with service users, enabling them to participate in the design and planning of services within the Council's objectives whilst achieving value for money. For example, Partnership Boards are in place for people with learning disabilities, family carers, older people, mental health and people with disabilities. The boards bring together service users, family carers and senior managers from the public, private, community and voluntary sectors to ensure effective local coordination and strategic planning to improve the lives of vulnerable people and family carers.

The Council regularly consults on strategic decisions and service developments via an email list of people who have signed up to provide feedback to the Council. This includes those members of what was known as the People's Panel. Examples where these people have been used include consulting on Shropshire's annual budget proposals, taxi licensing fees, Shropshire's Local Offer, and drug and alcohol treatment systems in Shropshire.

The people on the consultation list also provide a quarterly view of the public's perception of how the Council is changing. This is a feature of the Council's Performance Management Framework.

The Council has introduced locality commissioning in 2013. Commissioning starts with a review of the data and requires consultation and engagement with the local community to provide intelligence to compliment detailed reviews of systems and customer experiences. The findings are used to challenge service providers and commissioners, and enable informed decision making about the need to and permission to change. Full locality commissioning activity has taken place in four market towns so far.

The Business Plan and Financial Strategy is under constant review and reported upon publicly; it sets out resource allocations aligned to the Council's policy framework.

1.2.2. Put in place effective arrangements to identify and deal with failure in service delivery.

There is a clear reporting mechanism for performance information which is presented alongside the financial information for the corresponding period. Areas of concern are identified and reported quarterly and exceptions are monitored more frequently e.g. on a

monthly basis, providing greater detail and explanation of the issues and actions being taken. The reports are presented to senior managers and Cabinet. The underlying detailed dashboards are also available to Scrutiny members who can identify specific issues they may want to consider. Cabinet may ask Scrutiny to look at specific issues of on-going concern.

First point for customer contact with the Council is through our Customer Service Centre and Hubs. Customer Satisfaction surveys are produced on a monthly basis which consist of detailed analysis about feedback from customers who contact us by email and telephone. This information is gathered and actioned by the Performance and Development Team in Customer Services.

The Council has a clear, well publicised complaints procedure which requires complaints to be dealt with rigorously and promptly. Complaints are monitored by management and Cabinet, together with improvement actions arising from them.

1.3. Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money.

1.3.1. Decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Measure the environmental impact of policies, plans and decisions.

The Council has met its savings target in 2014/15.

The Medium Term Financial Plan, which is under constant review, sets out resource allocations aligned to the Council's policy framework.

In response to the challenging financial situation the Council has recognised the value in fundamentally transforming how services are delivered, starting with the customer and how they want to live, and designing services from this starting point. A range of tools are in place to take this forward including:

- Research and evidence gathering, including Ethnographic Research, to ensure that there is a robust basis for change.
- Problem solving tools and approaches to help overcome barriers.
- Business and service design methodology including systems thinking combined with prototyping to develop new ways to achieve outcomes; rolling-in and expanding new delivery models to meet the need where the prototypes have been successful

To enable this, the Council has created a team of people with skills, experience and knowledge of changing how services are provided. Located in ip&e, the Council's wholly owned company, the members of this team work across prioritised key transformational areas. A significant proportion of their role is in supporting and challenging operational staff to understand their current systems, identify future systems, prototype new ways of working and make the successful approaches normal.

The Council has continued to reshape its programme of change following discussion by directors on the Council's Business Plan and Financial Strategy 2014-17. Combined with a programme management approach which provides robust monitoring of the delivery of financial and non-financial benefits.

The Council has progressed the arrangements to put in place a defined commissioner/provider split as well as continuing work to develop its wholly owned company, ip&e Ltd. Over the year the Council has focused on identifying a grouping of services and offers that can deliver services through ip&e Ltd to the Council and others. All services delivered in this way will be managed using contracts with clear performance targets.

The Council's locality commissioning work, introduced during 2012/13 has progressed with the introduction of a focus on work to develop resilient communities. Alongside this the Local Joint Committees have been considered to look at how they can take on local commissioning roles. One such area that is progressing is Positive Activities for young people, where local areas will decide how to use available money to fund activities for young people in their area.

Principle 1

There is evidence which confirms that the Council is continuing to focus on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles.

2.1. Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function.

2.1.1. Set out a clear statement of the respective roles and responsibilities of the cabinet and of the cabinet members individually and the authority's approach towards putting this into practice.

Article seven of the Constitution lays down the role of the Cabinet. Part three sets out in more detail specific duties and functions of the Cabinet, chief officers, statutory officers and portfolio holders. Member roles, rights and duties are specified in Article two and in Part five, the Protocol for Member and Officer Relations.

The specific role of a Cabinet Member is laid down in Part nine (I13) of the Constitution.

2.1.2. Set out a clear statement of the respective roles and responsibilities of other authority members, members generally and of senior officers.

Member roles and responsibilities are clearly defined throughout the Constitution, specifically their roles, rights and duties are specified in Article two and in Part five, the Protocol for Member and Officer Relations. In addition, Part nine clearly lays out the role and expectations of members both generally and with special responsibilities. Member remuneration is laid down in Part six the Members' Allowances Scheme.

Part two Article 12 of the Constitution (B19 -22) sets out clearly the functions and responsibilities of all Chief Officers and specifically the Head of Paid Service (12.2) the Monitoring Officer (12.3) and the Chief Finance Officer (12.4). Delegations to specific officers are documented at Part eight of the Constitution.

2.2. Ensuring that a constructive working relationship exists between members and officers and that the responsibilities of members and officers are carried out to a high standard.

2.2.1. Determine a scheme of delegation and reserve powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required.

The Constitution generally and Article 13 sets out the responsibilities and procedures for decision making. Key decisions, Cabinet, Scrutiny and other committees and full Council reserved decisions are defined in Part three and four of the Constitution. The fundamental principles to be adopted in all decision making are also laid out as follows:

- Proportionality (i.e. the action must be proportionate to the desired outcome).
- Due consultation and the taking of professional advice from officers.
- Respect for human rights.
- A presumption in favour of openness.
- Clarity of aims and desired outcomes.
- Consideration of alternative options.
- Recording reasons for the decision, including details of any alternative options considered and rejected.
- That in relation to decisions of the Cabinet that these are lawful and consistent with the powers delegated by the Council.

In order to allow the Council to make decisions that are required on a daily basis, responsibilities for certain decisions are delegated to officers as identified in Section 8 of the Constitution "Delegations to Officers". Part 3, Responsibilities for Executive Functions sets out how Portfolio Holders undertake their responsibilities taking advice from the relevant senior officer.

2.2.2. Make a chief executive or equivalent responsible and accountable to the authority for all aspects of operational management.

Article 12 of the Constitution states the Chief Executive (Head of Paid Service) is responsible for “overall corporate management and operational responsibility (including overall management responsibility for all officers)” and this is reiterated in the Head of Paid Service’s job description.

2.2.3. Develop protocols to ensure that the leader and chief executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained.

Part five of the Constitution clearly lays out the protocol for member/officer relations (Constitution page E86).

The Chief Executive, the Leader and Deputy Leader meet weekly at the Leader Briefing with directors attending as required. The Chief Executive updates directors following this meeting. The Chief Executive’s appraisal is conducted by the Leader.

2.2.4. Make a senior officer (the S151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.

The functions of the Chief Finance Officer are stipulated in article 12.4 of the Constitution and statutory duties are listed under Financial Rules. The Chief Finance Officer is the Council’s S151 Officer (Financial Rules 4.14) and has statutory duties in relation to the financial administration and stewardship of the Council. Financial Rule 4.15 outlines the principles critical to the achievement of the Section 151 Officers’ statutory responsibilities:

- Is a key member of the Leadership Team, helping it develop and implement strategy and to resource and deliver the Council’s strategic objectives sustainably and in the public interest.
- Is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are considered and align with the authority’s overall financial strategy.
- Leads the promotion and delivery by the whole Council of good financial management and that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.
- Leads and directs a finance function that is resourced to be fit for purpose.
- Is professionally qualified and suitably experienced.

Duties and responsibilities are also included in the Chief Finance Officer’s job description.

In accordance with Section 114 of the Local Government Finance Act 1988 the Section 151 Officer reports to Council, Cabinet and the external auditors.

In accordance with the Section 25 of the Local Government Act 2003 the Section 151 Officer reports to members on the robustness of estimates and the adequacy of reserves.

The role also operates to best practice principles established in CIPFA's statement on the Role of the Director of Finance in Local Government 2010.

2.2.5. Make a senior officer (usually the monitoring officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.

Article 12.3 (B20) of the Constitution clearly defines the functions of the Monitoring Officer which include ensuring the lawfulness and fairness of decision-making. A protocol for the role of Monitoring Officer is included within Part five (E13-15) of the Constitution.

The Monitoring Officer is the Corporate Head of Legal and Democratic Services, whose role and responsibilities are included in the job description.

2.3. Ensuring relationships between the authority, its partners and the public are clear so that each knows what to expect of the other.

2.3.1. Develop protocols to ensure effective communication between members and officers in their respective roles.

Part five of the Constitution clearly lays out the protocol for member/officer relations (E86).

2.3.2. Set out the terms and conditions for remuneration of members and officers and an effective structure for managing the process, including an effective remuneration panel (if applicable)

Member remuneration is clearly laid down in Part six of the Constitution, the Members' Allowance Scheme.

There is an independent Members Remuneration Panel for determining members' allowances of at least three persons who are not members of the Council (Part three, C40). The Panel reviewed the remuneration of the Scrutiny Committee Chairman Allowance and the Member's allowance scheme for 2015/16 in February 2015.

Remuneration for Chief Officers is set on appointment by elected members at the relevant committee of the Council.

2.3.3. Ensure that effective mechanisms exist to monitor service delivery.

Council, Cabinet and Scrutiny meet on a regular pre-scheduled basis to set the strategic direction of the Council and to monitor service delivery. The Council's Business Plan and Financial Strategy 2014-17 and the Forward Plan of Decisions continued to provide the focus for emerging issues and topics for decision and scrutiny during 2014/15 and will do so for 2015/16 onwards.

A revised performance management framework based around the Council's outcomes was introduced in early 2014/15 establishing a clear reporting mechanism. The framework is reported using outcome dashboards setting out graphs, charts and infographics.

The new framework was developed with Members. It looks at sharing and communicating the performance information using approaches appropriate to the audience and how they might use the information to fulfil their roles. For example, the presentation of the quarterly performance reports to Scrutiny includes detailed outcome dashboards to enable Scrutiny members to consider a wider view and drill down. For Cabinet, the report uses two presentations, the first is a small dashboard setting out four measures that reflect what the Council is working to achieve i.e. delivering balanced budgets each year (thereby delivering the savings), seeking to maintain the quality of life of Shropshire for communities; flattening the management structure; commissioning more services and providing less. The second is infographic based and draws out two key measures for each outcome to provide a focused view of progress and emerging issues.

The quarterly reports are publicly available, being reported to the Council's senior managers, Cabinet, and to all members. Areas of concern are identified and reported quarterly and monitored on a monthly basis by the relevant director(s) and portfolio holder(s). Continued issues with performance are highlighted in subsequent performance reports. Issues may also be referred to Scrutiny for review. PerformancePlus, the Council's Performance Management System has been developed to match and deliver the new requirements of the outcomes framework. It supports and provides reporting of key measures for different levels of management. Appropriate dashboards have also been developed for partnership structures such as the Shropshire Safeguarding Board and Children's Trust, as well as for directors, heads of service and their teams to support and help manage their service areas.

Over the past 12 months work has also been underway to develop different ways of understanding service delivery and the impact of change, especially in the context of the Council moving to a commissioning organisation. Standard deviation and control charts have increasingly been used to track and present variation in activity and enable a focus to be taken on overall delivery rather than snapshot views for judgement purposes. In addition a commissioning framework is being established.

The Council continues to benchmark its services to assist in identifying areas for review and to ensure that as many performance indicators as possible are performing to the standards that the Council sets. Benchmarking services used include:

- Society of County Treasurers (SCT)
- Association for Public Service Excellence (APSE)
- Chartered Institute of Public Finance Accountants (CIPFA)

- Association of Local Authority Risk Managers (ALARM)
- Adult Social Care National Data
- Children’s Social Care National Data
- School attainment results
- HouseMark

2.3.4. Ensure that the organisation’s vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated.

Article 1.3.2 of the Constitution clearly identifies that one of the purposes of the constitution is to “support the active involvement of citizens in the process of local authority decision-making”.

Part four – Executive Procedure Rules include the requirement for all reports to Cabinet relating to the budget and policy framework to contain details of the nature and extent of consultation with stakeholders, relevant Scrutiny committees and the outcome of that consultation (Part 4, 2.4, D46).

The Constitution also sets out the citizen’s rights in their dealings with the Council under Part two, Article three.

Consultation and engagement is achieved through a number of routes. Some examples are:

- Member surgeries.
- Local Joint Committees.
- Locality commissioning.
- Scrutiny panels.
- Service specific engagement.
- Engagement with the online consultation group.
- One-off public consultation and participation events on topics such as transport, and the Local Development Framework.
- Health and Well-being Board.
- Shropshire Young Health Champions.
- Members of Youth Parliament.
- Established links and regular meetings with local interest groups/forums e.g. Senior Citizens Forums, Shropshire Youth Association, Tenant Groups, Parents and Carers of Children with Disabilities.
- Shropshire VCS Assembly and its 16 Forums of Interest.
- Partnership Boards including the Children’s Trust and Safer, Stronger Communities Partnership.
- Business Board.

Local consultation has taken place using specific consultation and engagement activity for services and service areas. Locality commissioning activity involves engagement with communities and service user groups, as well as through structures such as the Local Joint Committees. These have helped to identify the needs and priorities of our citizens and make these our key areas for service delivery. Feedback from such events is used to develop strategic plans, priorities and targets. Widespread local consultation has taken

place via service user and customer feedback surveys, public meetings, local partnerships and Local Joint Committees to identify the needs and priorities of our citizens and make these our key areas for service delivery.

The Council recognises the importance of communicating its vision and uses a number of channels to this effect.

- The Council aims for a consistent approach to communication across the Council, reaching and targeting the key customers, stakeholders and partners in the most appropriate way.
- The Council aims to improve engagement through consistent branding, so that our stakeholders know what we do and who to contact. This ensures compliance with the Code of Recommended Practice on Local Authority Publicity March 2011. This requires all Council publicity aimed at the public to be clearly and unambiguously identified as being produced by the council. Printed material should make this evident on the front cover.
- Our website can help residents understand the Council's vision and purpose and to access services on a day-to-day level.
- The Shropshire Newsroom (www.shropshirenewsroom.com) hosts all the latest Council news stories with podcasts, videos and photographs available from the corporate Flickr account.
- The Council works with colleagues in the local, regional and national media to complement Shropshire Newsroom and ensure people have access to information about the Council.
- The Council uses relevant social media, as a method of disseminating our information and listening to feedback on issues as they arise.
- The Council uses its Customer Services telephone and face-to-face points as the main first point of contact enabling people to be more efficiently directed to the services they need.
- The Council uses the VCS Assembly weekly news bulletin to promote consultations, policy news, engagement opportunities and partnership working opportunities across the voluntary and community sector.

2.3.5. When working in partnership, ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority.

The Shropshire Compact has been effective in supporting the relationships between Shropshire Council, other public sector bodies and the voluntary and community sector. It acts as an aid to problem solving by clearly setting out roles, responsibilities and commitments. The Shropshire Compact was refreshed in 2013/14 in order to both update the document, but also to allow new public sector partners to join. Memorandums of Understanding relating to the Compact have been developed to engage new partners. More recently supporting documents and briefings have been produced to help build awareness of new policies and good practice ways of working.

A range of joint working initiatives is underway to improve service performance and delivery. Examples of working in partnership are:

- Shropshire Voluntary and Community Sector Assembly.
- Supporting People in Shropshire.
- Shropshire Children’s Trust Executive.
- Health and Wellbeing Board and a Health and Wellbeing Strategy.
- Sure Start.
- The Safer Stronger Communities Partnership.
- Drug and Alcohol Action Team.
- Integrated Offender Management programme.
- Local Resilience Forum.
- Shropshire Business Board and the Marches Enterprise Partnership.
- Telford and Wrekin for Adoption Services and for Youth Offending Services.
- Working with carers in Shropshire.
- Place Based Intervention Pilots.

The Members Code of Conduct provides guidance on pecuniary interests and declarations (Part five – Interests E2 – E3).

2.3.6. When working in partnership:

- **Ensure that there is clarity about the legal status of the partnership.**
- **Ensure that representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.**

The Council enters into formal partnership agreements where necessary which clearly formalise aims of the partnership and respective obligations and liabilities. Delegated powers are contained in Part three of the Constitution.

Principle 2

There is evidence which confirms that Members and Officers are working together to achieve a common purpose with clearly defined functions and roles.

Principle 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

3.1. Ensuring members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance.

3.1.1. Ensure that the authority’s leadership sets a tone for the organisation by creating a climate of openness, support and respect.

The Council is committed to the principles of good corporate governance and to this end has adopted this Code of Governance which is reviewed annually by Internal Audit and a compliance report produced for the Audit Committee.

The Shropshire Council Business Plan and Financial Strategy 2014-2017 defines the Council's mission as "our customers at the centre of everything we do"

Complaints procedures are available on the Council's website.

The contract procedure rules contained in the Constitution contain a list of standard clauses for ordinary and major contracts. These include:

- Anti-bribery and corruption.
- Public interest disclosure ('whistle blowing').
- Equalities; human rights.
- Health and safety.
- Freedom of information, confidentiality and data protection.

The Council encourages both staff and contractors to "speak up about wrongdoing" and provides a confidential hotline for raising concerns.

3.1.2. Ensure that standards of conduct and personal behaviour expected of members and officers, of work between members and officers and between the authority, its partners and the community, are defined and communicated through codes of conduct and protocols.

The Constitution (Part 5) contains the following codes and protocols for members and officers:

- Members Code of Conduct.
- Standards Procedures.
- Protocol for the Role of Monitoring Officer.
- Local Protocol for Officers and Members Dealing with Regulatory Matters.
- Local Protocol for Councillors and Officers Dealing with Licensing Matters.
- IT Code of Practice for Members.
- Local Members' Protocol.
- Employee Code of Conduct.
- Speaking up about Wrong Doing (whistle-blowing policy).
- Data Protection Policy.
- Counter-Fraud, Bribery and Anti-Corruption Strategy.
- Protocol for Member / Officer Relations.
- Guidance for Gifts and Hospitality.
- Protocol for Official Visits.
- Protocol on the Use of Council Facilities.
- Code of Corporate Governance.
- Protocol for Members Attendance at Conference and Training.
- Protocol for Task and Finish Groups.
- Protocol for Task and Finish Groups (including Scrutiny Ground Rules – Work Planning).

- Protocol for Opposition Briefings.
- Protocol for Media Work.
- Guidance for Acceptable use of Shropshire Councillor Webpages.
- Guidance for Audio and Video recording, photography and social media during council meetings.

Annual reminders on gifts and hospitality and whistleblowing are emailed to staff and placed on the intranet. Whistleblowing arrangements are in place and any irregularities identified are investigated by Internal Audit or the appropriate officers within the Service area. Audit Committee are responsible for the monitoring and overview of the “Speaking up about Wrongdoing Policy” and receive an annual report.

The Employee Handbook and the HR pages on the Intranet contain policy statements and guidance on:

- Discipline.
- Grievances.
- Harassment and Bullying.
- Speaking up about Wrongdoing.
- Managing Employee Performance.
- Expectations and Standards of Conduct.
- Diversity (Equalities).
- Health, Safety and Wellbeing.
- Performance, Learning and Development.

There is a clear and fully documented staff disciplinary process to deal with breaches in any code or protocol.

Complaints procedures are available on the Council’s website.

3.1.3. Put in place arrangements to ensure that members and officers of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.

Both members and employee codes of conduct stipulate that members and employees of the Council must not be influenced by prejudice, bias or conflicts of interest in any matter relating to the Council. There are numerous references throughout the Constitution to this issue, in particular in the Members Code of Conduct, Part five, Interests (E1 – E4).

In accordance with The Localism Act 2011 all members have registered and disclosed their pecuniary interests, these are available on the Council’s website.

In addition the Council has declarations of interest books both centrally and locally to help ensure members and staff do not get involved in decisions or processes where they may have a conflict of interest. Individual member declarations can be viewed on line and a hard copy is retained.

The standard meeting agenda includes a standing item for declarations of pecuniary interest.

There is a code of conduct in relation to gifts and hospitality and all instances must be recorded. Advice and guidance is provided on the Intranet.

Any breaches of the Member's Code are referred to the Monitoring Officer who will determine whether the matter should be formally investigated.

Staff are encouraged to "blow the whistle" under the "Speaking up about wrong doing policy" with a dedicated hotline to report issues anonymously. Staff are reminded annually of the hotline and policy.

3.2. Ensuring that organisational values are put into practice and are effective.

3.2.1. Develop and maintain shared values including leadership values for both the organisation and officers reflecting public expectations, and communicate these with members, officers, the community and partners.

The Council's Constitution Part 5 contains the Codes and Protocols which includes Codes of Conduct for members and employees.

3.2.2. Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice.

The Council has individual policy statements on Equality in Employment in place covering the following areas:

- Sexual Orientation.
- Disability.
- Gender.
- Race.
- Religion.
- Age.

The Council has a formal process (available on its website) for the reporting of any instances of harassment and hate crime/incidents.

The Council has a standardised recruitment policy and processes including employee reference, identity checks and mandatory Disclosure and Barring Service (DBS) checks for designated posts.

The Council are committed to having an ongoing local commitment to equality, diversity and social inclusion. The Council use Equality and Social Inclusion Impact Assessments (ESIIA) to identify if any changes to policy or services will adversely impact on particular groups of people, and whether the human rights of individuals may be affected.

The ESIIA replaced the previous Equality Impact Needs Assessment (EINA) in 2014/15. The new assessments include social inclusion and allow the Council to consider all groups and communities in Shropshire, to ensure that actions taken meet the legal requirements under the Equalities Act 2010.

The Council publishes completed ESIIA on the website and examples of areas reviewed in 2014/15 include:

- Hackney Carriage and Private Hire Licensing Policy;
- Commissioning of Community Hub Services;
- Discretionary Housing Payments Policy;
- Local Welfare Provision;
- The transfer of certain regulatory services to ip&e Ltd.

3.2.3. Develop and maintain an effective standards committee.

The Localism Act 2011 abolished the requirement for the Council to have a statutory Standards committee, though the Council has retained a non-statutory Standards committee which meets as and when required.

3.2.4. Use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority.

The Council ensures all our managers and members have received training and on-going support to ensure that there is 'due regard' to equalities in our entire decision making.

3.2.5. In pursuing the vision of a partnership, agree a set of values against which decision-making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively.

The Shropshire Compact provides partnership values and agreed ways of working; it is focused on commissioner and provider relationships. As Shropshire Council changes the way it works to demonstrate a more clearly defined commissioner/provider split, work will take place through the Shropshire Compact to more clearly communicate shared expectations of commissioners and providers. The Shropshire Compact offers an opportunity to challenge perceived poor practice and brings commissioners from across the public sector together to share learning and best practice.

Principle 3

There is evidence which confirms that the Council is demonstrating the values of good governance through upholding high standards of conduct and behaviour.

Principle 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

4.1. Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny.

4.1.1. Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisation for which it is responsible.

The Council has five established scrutiny committees which operate under clear terms of reference and rules of procedures laid down in the Constitution. Scrutiny Committee chairs and members have clearly laid down accountabilities and duties in Part four (D60 - 68) and Part nine (I15 - 16) of the Constitution. Members may not participate in the scrutiny of decisions they were involved in.

The Council is part of a long standing and effective Joint Health Overview and Scrutiny Committee with Telford and Wrekin Council. This reflects the reality that most substantial changes to services covered by the statutory duties for Health Scrutiny affect services across both local authority areas and as such would need to be looked at jointly, in line with regulatory direction.

There is an effective apolitical Audit Committee, whose purpose is, to provide independent assurance as to the adequacy of the Council's governance, risk management framework, associated internal control environment and financial reporting and treasury management.

4.1.2. Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.

Decision making is clearly laid down in Article 13 of the Constitution.

There is a standardised format for all committee reports which includes background to the report, any recommendations that decisions need to be made upon together with reasons behind those recommendations.

The Cabinet is the Council's key decision making body and makes decisions within the policy framework approved by Full Council. It is made up of the Leader, who is elected by the Council, and up to nine members. When key decisions are to be discussed or made, these are published in the Cabinet forward plan in so far as they can be anticipated. If these key decisions are to be discussed with Council officers at a meeting of the Cabinet, this will be open for the public to attend except where personal or confidential matters are being discussed. The Cabinet has to make decisions which are in line with the Council's overall policies and budget. If it wishes to

make a decision which is outside the budget or policy framework, this must be referred to the Council as a whole to decide.

In addition to Cabinet meetings there are also decision making sessions in respect of each portfolio holder. These meetings are not open to the public though the public can submit questions for consideration.

All committee meetings are independently minuted by trained staff working to a common format. Minutes will include any debate, motions, results of votes and decisions resolved. They are available electronically via the website or Intranet in addition to paper copies.

4.1.3. Put in place arrangements to safeguard members and officers against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice.

The standard meeting agenda includes a standing item to remind members that they must not participate in discussion or voting on any matter which they have a disclosable pecuniary interest and should leave the room prior to the commencement of the debate.

Both the members and employee codes of conduct stipulate that members and employees of the Council must not be influenced by prejudice, bias or conflicts of interest in a matter relating to the Council.

Individual member's pecuniary interest disclosures can be viewed on line and a hard copy is retained.

4.1.4. Develop and maintain an effective audit committee (or equivalent) which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee.

There is an effective apolitical Audit Committee with clear terms of reference which are reviewed annually and based on the Chartered Institute of Public Finance and Accountancy's Guidance.

The Audit Committee meets at least four times a year and undertakes regular training aimed at helping members discharge their function effectively. The Section 151 Officer and Head of Audit are required to attend.

External Auditors for the Council regularly attend Audit Committee meetings and have commented that the Audit Committee is effectively discharging its duties.

4.1.5. Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints.

There are clearly documented complaints procedures and advice to staff on how to deal with complaints. Complaints can be made electronically using an online form, in writing or verbally.

The Complaints procedure includes an undertaking that the Council will respond within ten working days on receipt within the service depending on the issue. If any extension is required these will be discussed with the complainant.

Complaints are processed and monitored centrally by the Customer Feedback and Complaints Team who review and monitor customer satisfaction and complaints handling.

Complaints are monitored centrally by the Senior Management Board. Reports include customer satisfaction levels and improvements in services put in place as a result of complaints. Further reports to members are produced on a quarterly and annual basis as requested.

The Council advise complainants that if they are dissatisfied with its response, they have the option to refer the matter to the Local Government Ombudsman. The Ombudsman's address, telephone number and their website address is provided.

4.2. Having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs.

4.2.1. Ensure that those making decisions whether for the authority or the partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications.

The Cabinet has a forward plan, and Scrutiny committees a work programme, which officers work to in the production of relevant reports and advice in order to facilitate the decision making process.

The duties of chief officers are laid down in the Constitution and their respective job descriptions. These include the giving of relevant and timely advice.

4.2.2. Ensure that proper professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately.

There is a standard committee reports template which provides a framework for officers to draft reports.

All Cabinet and Scrutiny Committee reports are reviewed by the Council's Chief Finance Officer and the Corporate Head of Legal and Democratic Services (the Council's Monitoring Officer) or their designated representatives for both financial and legal implications. In addition all reports are considered by Senior Management Team for approval before issue.

4.3. Ensuring that an effective risk management system is in place.

4.3.1. Ensure that risk management is embedded into the culture of the authority; with members and managers at all levels recognising that risk management is part of their jobs.

The requirement to develop and maintain proactive and robust systems for identifying and evaluating all significant risks are clearly laid out in Financial Rules, section six, Financial Rule 3 and Appendix C, Risk Management and Control of Resources. In particular:

- Strategic risks have been identified and robust controls to manage the risks put in place, further controls are implemented as required to provide the necessary assurances that our exposure to risk is effectively managed and minimised.
- Operational risks are monitored, reviewed and updated regularly.
- Routine monitoring of insurance claims and other losses is undertaken.

The Council has an Opportunity Risk Management Strategy which sets out roles, responsibilities and the procedures for managing risks within the Council. The Strategy is signed and endorsed by the Chief Executive.

Council strategic risks have been identified, aligned to the Annual Governance Action Plan and a member of the Senior Management Team assigned as the risk owner. Risk profile and actions plans have been put in place to ensure the risks are mitigated effectively and are reviewed on a monthly basis.

All Committee Reports include a section on risk assessment and opportunities appraisal.

Operational risks were fully reviewed in March 2015 and a new risk management system established following the identification of weaknesses in the previous risk management software with reporting linked directly to Heads of Service and directors. The Lead Member Advocate is the portfolio holder for Resources and Support. The Lead Officer Advocate is the Head of Finance, Governance and Assurance (Section 151 Officer). Risk management issues are discussed monthly at informal Directors and Cabinet meetings.

Internal Audit conducts an independent review of the risk management process annually which is reported to the Chief Finance Officer and the Audit Committee.

An Annual Report is provided to the Audit Committee summarising the year's activities, challenges and achievements.

4.3.2. Ensure that effective arrangements for whistle-blowing are in place to which officers, and all those contracting with or appointed by the authority have access.

The Council have a well-publicised whistleblowing policy available on the website and in leaflet form. Information is available for our partners and major contractors for their staff to encourage and

facilitate speaking up about wrongdoing. Audit Committee receive reports on fraud and special investigations include those relating to whistleblowing cases.

Staff have been updated in respect of fraud awareness, including whistleblowing, with the use of a web based learning tool.

There is a whistleblowing hotline located in Audit Services for people to ring in confidence and report their concerns either openly or anonymously.

4.4. Using their legal powers to the full benefit of the citizens and communities in their area.

4.4.1. Actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine (beyond the legal powers of the council) but also strive to utilise their powers to the full benefit of their communities.

4.4.2. Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on authorities by public law.

4.4.3. Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law (rationality, legality and natural justice) into their procedures and decision making processes.

The Council has a Monitoring Officer whose duties, laid down in the Constitution under Article 12; include ensuring the lawfulness and fairness of decision making (Article 12.3B). The Monitoring Officer is also the Corporate Head of Legal and Democratic Services.

The Monitoring Officer, or their delegated representative, attends the key decision-making meetings of members, including Council and Cabinet.

Officers in Legal and Democratic Services play a key role in ensuring that the principles enshrined in the Constitution, sustainable decision making, robust scrutiny, rules of natural justice, standards of conduct, efficiency, transparency, legality and high standards of corporate governance are delivered in practice through the Council's decision-making process. The Service provides advice and guidance on the interpretation of legal developments, is Lexcel accredited and possesses specialist legal officers who are experts in specific areas of Council activities.

All Committee reports require their authors to address the impact of the recommendations with respect to human rights.

Principle 4

There is evidence which confirms that the Council is taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

Principle 5 - Developing the capacity and capability of members and officers to be effective.

5.1. Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles.

5.1.1. Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis.

There is a member induction programme in place, supporting and developing newly elected members. A Community Leadership and Development Framework provides comprehensive development opportunities, and essential sessions. Development interventions are designed in the context of what individual members say they require during their one to one development reviews, and what their roles and responsibilities dictate they need. Member secretaries provide support, and the Member and Officer Protocol clearly stipulates officers' duties to provide professional and technical advice. The Local Member Protocol guides members and officers to behave in a way that promotes excellent communication.

A comprehensive Member Induction programme was planned and was delivered over a twelve month period from May 2013. It is open to all 74 members of Shropshire Council.

One to one development interviews are offered to all members (although these are not compulsory). The purpose is to review members' learning and development activities and their impact on the member role and to agree further learning needs.

An induction framework is in place for all new staff; this includes a corporate welcome and information session, team induction guidance and day one role induction.

All staff can access an electronic skills assessment toolkit and a management development toolkit which provides them with the opportunity to self-assess and to identify development needs. Staff can discuss development needs with their manager and identify relevant training from our core skills programme.

5.1.2. Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority.

The Council are required to provide the Monitoring Officer and the Chief Finance Officer with such officers, accommodation and other

resources as are in their opinion sufficient to allow them to perform their duties (Article twelve, 12.5).

Implementation of the Council's values and behaviours starts at induction. All learning and development programmes are underpinned by the values and behaviours.

The Council have recruitment and selection policies and guidelines for managers, and associated training is available. All posts have job descriptions and person specifications detailing the essential and desirable abilities, qualifications and experience necessary to undertake the duties of the post.

The Council have compulsory Continuous Professional Development (CPD) in specialist areas such as finance.

Each new senior team undergoes leadership development and concentrates on clarification of roles responsibilities and expectations.

5.2. Developing the capability of people with governance responsibilities and evaluating their performance as individuals and as a group.

5.2.1. Assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively.

An annual programme of development seminars is provided as part of the Continuous Member Development Programme (CMDP). They are designed in the context of what individual members say they require during their one to one development reviews. Member secretaries provide support, and the Member and Officer Protocol clearly stipulate officers' duties to provide professional and technical advice.

Specialist development is also available for members of particular committees, such as Audit, Planning, Licensing and the Pensions Committee to improve knowledge on technical issues and update members on new developments. The Audit Committee Terms of Reference include a requirement to undertake specialist training in order to fulfil its function effectively.

A core skills development framework is available to all staff, made up of ten priority themes. "Core skills" is effectively a Council wide training programme with offerings available for staff and managers at all levels. The range of development methods includes workshops, on line learning, coaching and mentoring.

Resources are channelled to deliver learning that is fit for purpose, and development activity is being identified at team manager level. Senior managers are supported by a Business Partner responsible for People Development, to identify 'new team' and individual development needs and a bespoke training package is designed and delivered on a team basis to meet corporate objectives. Recent

examples of this have been leadership development programmes in three service areas, bespoke customer service training, performance management training and support through change using windmills tools.

Organisational change has identified a need for a management development programme aligned to the needs of the business, equipping managers with the necessary people management skills. This programme covers HR topics such as handling redundancies, handling grievances and disciplinaries, managing absence and managing capability. The programme is supported by continued coaching support and HR advice for managers.

Regular catch ups, team meetings and in some areas supervision sessions are conducted throughout the year.

A performance review scheme is in place across the Council. The scheme continues to focus on the quality of discussion between manager and employee with a requirement to review previous year's performance, agree objectives and behaviours for the coming year and identify development needs to support the achievement of objectives as well as career aspirations.

The work being done on creating a Commissioning Council has identified a set of development needs which feed into the design and implementation of a commissioning skills training programme for commissioners and commissioning support. A skills needs analysis for the Commissioning Council will identify generic and individual skills.

The Council has a commitment to train and develop our staff; staff performance reviews occur at least once a year where training needs are identified and personal development plans agreed. Senior managers are supported by a Business Partner responsible for People Development, to identify team and individual development needs and a bespoke training package is designed and delivered on a team basis to meet corporate objectives. Training is also provided on generic areas such as opportunity risk management, data protection, freedom of information and human resource issues.

A high performing team programme is available in the skills programme, providing elements of leadership and management development, including workforce engagement.

5.2.2. Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.

Our Scrutiny Panels and performance monitoring and reporting system provide the vehicles for robust scrutiny and challenge.

Our comprehensive programme of officer and member development facilitates challenge; this results in improved performance at an operational level.

Our commitment to member and staff training helps to ensure that members and officers have the necessary skills to effectively challenge and improve existing policies and performance.

The Council have compulsory Continuous Professional Development (CPD) in specialist areas such as finance.

The Council readily uses outside expert advice in those areas where specialist knowledge is required such as our Pension Fund Investment Managers, Waste Private Finance Investment specialists, construction professionals, energy and water consultants and external expert legal advice when required.

5.2.3. Ensure that effective arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan which might, for example, aim to address any training or development needs.

The Community Leadership and Development Framework provides members with what they need to deliver their expanded role to the best of their ability.

Executive members may undertake the LGID (Idea) Leadership academy.

5.3. Encouraging new talent for officers and members of the authority so that best use can be made of individuals' skills and resources in balancing continuity and renewal.

5.3.1. Ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority.

The Council has documented recruitment and selection policies and guidelines for managers. All posts have job descriptions and person specifications detailing the essential and desirable abilities, qualifications and experience necessary to undertake the duties of the post. Shropshire Council values the diversity of its workforce. It will not tolerate less favourable treatment on grounds of: gender, race, colour, ethnic or national origin, disability, marital status, sexual orientation, responsibility for dependents, age, trade union or political activities, religion/beliefs, or any other reason which cannot be shown to be justified. Recruitment training for managers is designed to ensure that these policies and the guidance is implemented.

The Shropshire Voluntary and Community Sector Assembly brings voluntary and community sector groups and organisations together to offer a collective and strong voice. The Assembly's Forums of Interest are open to organisations but they have strong links to groups of interest where individuals are represented. For example,

the Pan Disability Forum offers a link to Shropshire's Deaf and Hard of Hearing Group and Visual Impairment Forum and there are links between the Health and Social Care Forum and Shropshire's Carers Forum. Similarly the Older People's Assembly links to Senior Citizens Forums across the county.

The Council has the following in place to facilitate effective engagement with and participation from all sections of the community, partners and providers:

- FRESH Equalities Forum.
- Hate Crime Reporting Group.
- Equality and diversity included in the induction framework.
- Public Sector Equality Duty.
- Local Joint Committees.
- Making it Real (Adult Social Care).
- Youth Parliament.
- Care Council Crew (CCC).
- Governor Opportunities and Training.
- Gypsy Liaison Team.

5.3.2. Ensure that career structures are in place for members and officers to encourage participation and development.

Staff are annually appraised which includes the identification of training and development needs and the drawing up of training action plans to address these.

The Council has a core skills development programme including management and leadership development for the development of existing and new managers.

In response to business need, a new HR Management Development programme and a Commissioning skills programme have been developed. Alongside these is a skills analysis for the Commissioning Council. The Core Skills Development Programme continues to be informed by generic development needs.

The Council has compulsory CPD in specialist areas such as Finance which is also included in job descriptions.

The Council has an ongoing Member Development programme in place; particular attention is paid to training/developing newly elected members, members and officers of Overview and Scrutiny; Community Leadership in action; members of regulatory committee's; statutory duty and ethical governance.

Graduates on our Shropshire Graduate Development Programme continue to develop their knowledge and skills; contributing to succession planning for the future of Shropshire Council.

Principle 5

There is evidence which confirms that the Council is developing the capacity

and capability of members and officers to be effective.

Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability.

6.1. Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.

6.1.1. Make clear to themselves, all officers and the community to whom they are accountable and for what.

This is clearly enshrined in the Constitution, the purpose of the Constitution in Article one includes:

- To enable the Council to provide clear leadership to the community in partnership with citizens, business and other organisations.
- To support the active involvement of citizens in the process of local council decision making.

The Business Plan and Financial Strategy 2014-17 which sets out the Council's mission and priorities.

6.1.2. Consider those stakeholder bodies to whom the authority is accountable and assess the effectiveness of the relationships and any changes required.

The Council is accountable to the Department of Communities and Local Government (CLG) and other key government departments such as the Department for Education.

The Shropshire Partnership has an independent Chair and is made up of key partners in Shropshire including:

- West Mercia Police.
- Shropshire County Clinical Commissioning Group.
- Shropshire Fire and Rescue Service.

Partnership action and delivery takes place through the individual organisations and joint working. Thematic partnerships such as the Health and Wellbeing Board, Safer Stronger Communities Partnership, Children's Trust Executive and Housing Strategy Group take forward, identify and agree how to address issues together.

Through the Shropshire Compact Group the Council works to assess its relationship with the voluntary and community sector. A bi-annual survey is carried out (based on similar issues to the National Survey of Charities and Social Enterprises last carried out in 2010).

The Shropshire Council and VCS Assembly's Change Group is currently leading on work to maintain strong cross sector relationships through a period of intensive change.

6.1.3. Produce an annual report on the activity of the scrutiny function.

The Council has well established Scrutiny arrangements that provide the opportunity to challenge delivery of policy and services and hold the Cabinet accountable for their decisions.

An item is included on the agenda for every ordinary Council meeting to facilitate the review of both the Executive and Scrutiny functions of the Council's work; this will cover the work of the committees and their key achievements. An annual report from each of the scrutiny committees is presented to Council alongside reports from the portfolio holders; the scrutiny reports detail the past work of the Committees, the present work and the plans for the future.

6.2. Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning.

6.2.1. Ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements and ensure that they operate effectively.

The Council has a Media Protocol which provides guidance on all forms of internal and external communications.

Customer Services help ensure that all of our communications are appropriately written and communicated in a way to maximise engagement. Together with the Written Style Guide it helps the Council achieve more effective communications.

Shropshire Council's Brand Rules set out how the Council can deliver effective communications through a consistent approach and meet the requirements of the Code of Recommended Practice on Local Authority Publicity March 2011.

Internal Communication channels include:

- Staff Intranet.
- Latest staff information e-mails.
- Team meetings and staff briefings.
- Ad hoc information sessions on specific areas.

6.2.2. Hold meetings in public unless there are good reasons for confidentiality.

Article 3 of the constitution states "Citizens have the right to attend meetings of the Council, Cabinet and its committees, except where

confidential or exempt information is likely to be disclosed and the meeting is therefore held in private” these exceptions are clearly defined. The public will only be excluded where the public interest in maintaining an exemption outweighs the public interest in disclosing the information.

The Council also have very clear rules within the Constitution governing access to information and the grounds on which information should be excluded from the public domain (Constitution Part four, pages D26-35).

6.2.3. Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognize that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands.

The Council has many ways of communicating with our citizens and stakeholders such as:

- Publications and leaflets.
- Customer Service Centre.
- Face to face points.
- Shropshire Council website.
- Local Joint Committees.
- Established links and regular meetings with local interest groups/forums such as Older Peoples Forum, Youth Parliament.
- Public and stakeholders open budget consultation meetings, single issue and geographical area issue consultation meetings.
- Council tax spend online information.
- Social media channels.

The Communications Strategy clearly lays out our commitment to communicate with all sectors of the community.

Marketing and communications strategies are developed that reflect the need to carefully target communications and marketing activity.

6.2.4. Establish a clear policy on the types of issues they will meaningfully consult on or engage with the public and service users about including a feedback mechanism for those consultees to demonstrate what has changed as a result.

Some recent examples of consultation the Council has undertaken are:

- Site allocations and management development.
- Adult social care users’ survey.
- Adult social care carers’ survey.
- Outdoor recreation users’ survey.
- Customer contact centres user survey.
- Taxi licensing proposals survey.
- Budget proposals survey 2014-2017.
- The Shropshire local offer.
- Church Stretton library.

- Children's centre services.
- Drug and alcohol services.
- VCSE State of the Sector Survey (Voluntary and Community Sector Assembly)

The Council regularly consults on strategic decisions and service developments via an email list of people who have signed up to provide feedback to the Council. This includes those members of what was known as the People's Panel. The people on the consultation list also provides a quarterly view of the public's perception of how the Council is changing. This is a feature of the Council's Performance Management Framework.

6.2.5. On an annual basis, publish a performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period.

Our framework establishes a clear reporting mechanism for performance of corporate priorities and the Council's outcomes. The quarterly reports are publicly available, being reported to the Council's senior managers, Cabinet and members to identify any issues they may want to have considered through Scrutiny.

The quarterly reports cover the achievement of the Council's outcomes, financial information and customer feedback information. They build quarter on quarter with the quarter four report providing the full year view.

In addition to the performance report each Portfolio Holder provides an annual report to Council on progress in their area of responsibility, with issues and future plans, going to the July and September meetings. The corresponding Scrutiny Chairs also provide a report on the work of their Scrutiny Committee to provide the full picture around decision making and holding to account.

6.2.6. Ensure that the authority as a whole is open and accessible to the community, service users and its officers and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.

The rules concerning confidentiality are clearly laid down in the Constitution Part 4 with a presumption that items will remain open to the public unless they meet specific confidentiality criteria.

Partners' responsibilities are clearly stated in Financial Rules (Section E1, DD68-69) and in the partnership guidance document.

The Council has a small Information Governance team committed to ensuring the principles of Data Protection and Freedom of Information are followed.

6.3. Making best use of human resources by taking an active and planned approach to meet responsibility to staff.

6.3.1. Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making.

The Chief Executive provides a regular update for all staff via email on key issues including relevant information from the senior management team. Staff without access to email, are updated by their managers.

The Intranet is used widely to communicate information and also as a mechanism to involve staff in providing feedback on particular issues.

The performance review process provides a one to one opportunity for staff to discuss performance, achievements and issues as well as an opportunity to discuss how things are working in their area. From this work, objectives and personal development plans are produced.

There is a Joint Consultative Council which consists of elected trade union representatives, members and senior management. This meets regularly to review and agree key employment policies.

The Council has monthly informal meetings with trade unions to manage issues of concern, discuss emerging issues and policy changes. In addition a regular meeting between Human Resources and trade unions is held to discuss current issues at the Council, in a less formal environment than the Joint Consultative Committee

Focus groups are held with trade union representatives to discuss and contribute to key employment policies whilst they are being drafted as part of the consultation process.

Issues which need consultation and approval over policy changes are discussed through a quarterly 'Policy Forum' prior to the items then going to the next Joint Consultative Committee.

Managers hold regular team meetings where staff have the opportunity to provide comments on their service and contribute to policy and service delivery issues in their own service area. Managers also have regular individual meetings (known as catch ups, one to ones or supervision) which provide another mechanism for consultation.

Principle 6

There is evidence which confirms that the Council is engaging with local people and other stakeholders to ensure robust public accountability.

Revised April 2015

Appendix 1

SHROPSHIRE COUNCIL FRAMEWORK OF CORPORATE GOVERNANCE

Council Mission: As soon as possible everything is as efficient as it can be, focusing on the customer, prevention and partnership. The priorities are:

- Growing: Help to manage our environment (in a way that helps Shropshire thrive).
- Protecting: Strive to keep people from harm (in a way that doesn't compromise on their choices).
- Helping: Help people, communities and businesses to help themselves (in a way that helps them to make the most of the choices available to them).

The Shropshire system by which we direct and control our functions and relate to our community.

Principal 1 Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area	Principle 2 Members and Officers working together to achieve a common purpose with clearly defined functions and roles.	Principle 3 Promoting values for the authority & demonstrating the values of good governance through upholding high standards of conduct and behaviour.	Principle 4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.	Principle 5 Developing the capacity and capability of members and officers to be effective.	Principle 6 Engaging with local people and other stakeholders to ensure robust public accountability.
Budget Book	Shropshire Council Business Plan & Financial Strategy 2014-17	Shropshire Council Business Plan & Financial Strategy 2014-17	Cabinet Forward Plan	Members Induction	Locality Commissioning
Shropshire Council Business Plan & Financial Strategy 2014-17	Shropshire Compact	Speaking Up about Wrongdoing	Key Decision Process	Specialist Member Training	Shropshire Council Business Plan & Financial Strategy 2014-17
Shropshire Compact	Local Joint Committee Meetings	Fraud and Corruption Hotline	Speaking Up about Wrongdoing	Member Development Programme	Shropshire Voluntary and Community Sector Assembly
Local Joint Committee Meetings	Shropshire Website, including e-Shrop Intranet	Complaints Procedure	Fraud and Corruption Hotline	Shropshire Voluntary and Community Sector Assembly	Annual Scrutiny Chairs Report
Shropshire Website, Shropshire Newsroom. e-Shrop Intranet	Locality Commissioning	Register of Pecuniary Interests	Complaints Procedure	Recruitment and Selection Process	Shropshire Website, Shropshire Newsroom. e-Shrop Intranet
Council Tax Leaflet	Record of Decisions	Gifts and Hospitality Register	Register of Pecuniary Interests	HR Development Team	Customer First
Shropshire Business Board	Local Governance	Freedom of Information	Gifts and Hospitality Register	Training and Development Courses	Local Joint Committees
Locality Commissioning	Constitution	Partnership Guidance – Shropshire Compact	Opportunity Risk Management Strategy	Continuous Professional Development	Council Tax Leaflet
Communication Plan	Head of Paid Service	IT Code of Practice for Employees	Freedom of Information	Member Officer Protocol	Budget Book
Constitution	Chief Finance Officer	Constitution	Constitution	Job Descriptions	Communication Plan
Local Governance	Financial Rules	Monitoring Officer	Chief Finance Officer	Scrutiny Process	Constitution
Annual Statement of Accounts	Monitoring Officer	Code of Corporate Governance	Monitoring Officer	Audit Committee	Local Governance
Annual Governance Statement	Member / Officer Relations Protocol	Contract Procedure Rules	Job Descriptions	Performance Framework	Scrutiny Process
Commissioning Strategy	Members Code of Conduct	Counter-Fraud, Bribery and Anti-corruption Strategy	Scheme of Delegation	Professional Development	Performance Framework
Scrutiny Process	Employee Code of Conduct	Member / Officer Relations Protocol	Members Code of Conduct		Staff Briefing and Consultation
Internal and External Audit	Scheme of Delegation	Members Code of Conduct	Employee Code of Conduct		
Inspectorates	Job Descriptions	Employee Code of Conduct	Scrutiny Process		
Scrutiny Process	Contracts of Employment	Harassment and Disciplinary Policies	Audit Committee		
Internal and External Audit	Performance Framework	Recruitment Process and DBS checks	Medium Term Financial Plan		
Inspectorates	Scrutiny Process	Internal and External Audit	Performance Framework	KEY	
		Performance Framework	Insurance	Openness and inclusivity	
		Scrutiny Process	Scrutiny Process	Accountability	
Integrity					

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
25th June 2015	
9:30am	<u>Public</u>

ANNUAL GOVERNANCE STATEMENT (AGS) AND REVIEW OF THE EFFECTIVENESS OF THE COUNCIL'S SYSTEM OF INTERNAL CONTROLS 2014/15

Responsible Officer James Walton

e-mail: James.walton@shropshire.gov.uk Tel: 01743 252007

1. Summary

The Council is required under Regulation 4(3) of the Accounts and Audit Regulations 2011, to produce an Annual Governance Statement to accompany the annual statement of accounts, which must be signed by the Leader of the Council and the Head of Paid Service. This statement should be considered following a review of the effectiveness of the Council's system of internal controls as required by the Accounts and Audit Regulations 4(2). Members are asked to consider the proposed statement, the basis on which it has been compiled and comment on its contents, this will help ensure that it remains a true reflection of the internal controls of the Council for 2014/15.

2. Recommendations

The Committee is asked to consider and approve with appropriate comment, the Annual Governance Statement 2014/15 at **Appendix A**.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1. Risk management is part of the overall internal control arrangements and contributes to the Council's strong governance. In compiling the AGS this year we have adopted a slightly different approach. Traditionally actions for improvement following a review of governance at the Council are mapped across to strategic risks as an operational process in the background. This year, the AGS has been drafted based on information contained in the risk register alongside data from assurance statements and officer review groups. The strategic risk register is regularly monitored and updated by senior managers and is a useful, up to date tool to identify governance issues. Consequently this creates a clear link between the AGS, the strategic risk register and business planning and performance.

- 3.2. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.3. There are no environmental consequences of this proposal and consultation has been used to inform the Annual Governance Statement by seeking assurances from senior officers as to the effectiveness of internal controls.

4. Financial Implications

- 4.1. There are no financial implications in respect of the Statement, these may arise when implementing future improvement activities and will be reported separately.

5. Background

- 5.1 Shropshire Council is required to prepare an Annual Governance Statement; a statutory requirement set out in Regulation 4(3) of the Accounts and Audit Regulations 2011. In doing so the Council complies with the principles of corporate governance set out in the CIPFA/SOLACE Good Governance Framework (2007- reviewed and revised in 2012). The framework is a discretionary code but the Council is judged against it as part of best practice. The original framework outlines six core principles of good governance focusing on the systems and processes for the direction and control of the organisation and its activities through which it accounts to, engages with and leads the community. In July 2014, a joint report from CIPFA and the International Federation of Accountants (IFAC) was produced on the, "International Framework: good governance in the Public Sector". This report looks at governance across all public sector bodies and in reviewing the Annual Governance Statement has been referred to and used to further inform the process.
- 5.2 Both frameworks emphasises that good governance should be corporately owned. The degree to which the Council follows these principles should be declared in its Annual Governance Statement. The purpose of the Annual Governance Statement is to provide assurance that the Council has sound governance arrangements in place that are supported by effective systems of internal control.
- 5.3 The six core principles referred to in the CIPFA framework defining the principles of good governance are:
 - i) Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
 - ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles.
 - iii) Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
 - iv) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
 - v) Developing the capacity and capability of members and officers to be effective.
 - vi) Engaging with local people and other stakeholders to ensure robust public accountability.

- 5.4 In line with best practice the Council's existing Code of Corporate Governance has been reviewed and compliance assessed in light of the guidance issued.
- 5.5 In compiling the Annual Governance Statement the guidance identifies it should include the following information:
- i) Scope of Responsibility.
 - ii) The purpose of the governance framework.
 - iii) A description of the governance framework and the key elements of the systems and processes that comprise the authority's governance arrangements.
 - iv) Review of effectiveness.
 - v) Significant governance issues including an outline of the actions taken, or proposed, to deal with any significant governance issues identified.
- 5.6 The Annual Governance Statement is a key corporate document with the Chief Executive (CEO and Head of Paid Service) and the Leader having joint responsibility as signatories for its accuracy and completeness. It is also important that all other senior officers provide assurances to the process. The preparation of the Annual Governance Statement will be overseen and approved by directors supported by senior management as a corporate document which is owned by all senior officers and members.
- 5.7 In compiling the Annual Governance Statement assurance a review of the effectiveness of the Council's systems of internal controls, as required by the Accounts and Audit Regulations 2011 4(2), is conducted and information is obtained from a range of sources so that the signatories to the Statement can assure themselves that it reflects the governance framework for which they are responsible. **Annex A** of the Annual Governance Statement Framework 2014/15, clearly identifies the areas from which assurance and supporting evidence has been obtained to support the Annual Governance Statement and therefore demonstrates the effectiveness of the Council's systems of internal control and further key assurances are provided from the:
- i) CEO/ Head of the Paid Service.
 - ii) Directors and senior management.
 - iii) Head of Finance, Governance and Assurance, Section 151 Officer and Responsible Financial Officer.
 - iv) Head of Legal, Democratic and Strategic Planning Services, Monitoring Officer.
 - v) Audit Service Manager.
 - vi) Performance and risk management officers and
 - vii) External Audit and other review agencies.
- 5.8 Where any significant governance issues are identified within the assurances received these must be identified in the Annual Governance Statement.
- 5.9 The Annual Governance Statement is a key document which identifies the strong systems and processes the Council has in place contributing to our continuing high standards or corporate governance. A copy of the Statement is attached as **Appendix A**.

5.10 The Council has identified the following significant governance issues.

“The main challenges facing the Council appear below and are set in the context of delivering services to acceptable standards whilst achieving the budget savings required in 2015/16 and the overall funding gap of £80m as identified as part of the Business Plan and Financial Strategy. To ensure this is delivered and strategic risks managed, the Council will:

- Identify a clear ICT Strategy for future delivery and as part of this, improve the IT infrastructure to ensure it is fit for purpose, robust, PSN compliant and provides cover for business continuity. The ICT Strategy should be fully aligned to the Council’s Asset Strategy, Digital Strategy and Customer Involvement Strategy and the Council’s Business Plan and Financial Strategy.*
- Regularly monitor and review delivery against the second year of the Council’s Business Plan and Financial Strategy and adjust plans as required at Director and Cabinet levels to achieve a balanced budget. Ensuring that supporting strategies, i.e. ICT and Workforce development align closely.*
- Regularly monitor and review delivery of the Council’s Business Plan and Financial Strategy to deliver outcomes whilst managing demand and delivering value for money through commissioning.*
- Ensure that the staffing resources, given the changing shape of the Council, continue to remain skilled, knowledgeable and appropriate to deliver the Council’s business plans. Especially for commissioning and ICT resources. Implement a workforce plan aligned to business plans and supported by our staff development processes.*
- Continue to build in appropriate governance arrangements into the commissioning Council to maximise value for money and ensure the best return for the local tax payer. Including: developing a more cohesive and robust way of monitoring contracts as part of the re-design of Council functions; further clarifying commissioning intentions (stop/do/buy); coordinating operationalisation of locality working and Improving transfer arrangements to ADMs.*
- Ensure robust business cases for any project involving redesign and new delivery models are properly constructed, appropriately consulted upon and scrutinised to ensure they meet the requirements of the Business Plan and Financial Strategy and are financially viable before any implementation decision. Business cases should follow the guidance available on the Intranet.*
- Review safeguarding governance arrangements and processes in consultation with key stakeholders”.*

5.11 The associated risks have been identified, remain under close review and will be managed throughout the year given that they are key to ensuring the continued delivery of high quality services.

5.12 Action plans and programmes of monitoring and evaluation are in place and are regularly updated to support both of these issues over the current and future years. An overall outcome report will be made to the Audit Committee at the end of the year.

5.13 The action plan attached to the 2014/15 statement has been reviewed, details of which are incorporated into the AGS.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

CIPFA/SOLACE - Publication - Delivering good governance in local government.

Guidance note for English Authorities and Framework, 2007

CIPFA: Delivering Good Governance in Local Government: Framework Addendum 2012

Accounts and Audit Regulations 2011.

Application Note to Delivering Good Governance in Local Government:

A Framework CIPFA/SOLACE (March 2010)

International Framework: Good governance in the Public Sector: International Federation of Accountants and CIPFA, July 2014

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee.

Local Member N/A

Appendices

Appendix A - Annual Governance Statement 2014/15

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SHROPSHIRE COUNCIL

ANNUAL GOVERNANCE STATEMENT

2014/15

Scope of responsibility

1. Shropshire Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of the Council's functions, which includes arrangements for the management of risk.
3. The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the Council website at: <http://shropshire.gov.uk/committee-services/ecSDDisplay.aspx?NAME=SD203&ID=203&RPID=500657316&sch=doc&cat=13331&path=13331> This statement explains how the Council has complied with the Code and also meets the requirements of Accounts and Audit Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

4. The governance framework comprises the systems, processes, culture and values, by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have contributed to the delivery of appropriate services and value for money.
5. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise any risks to the achievement of Council policies, aims and objectives; to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.
6. The governance framework accords with proper practice and has been in place at the Council for the year ended 31st March 2015 up to the date of approval of the Statement of Accounts.
7. A brief description of the key elements of the Council's governance framework is outlined below. Documents referred to may be viewed on the Council's website and are available from the Council on request.

Leadership and behaviour

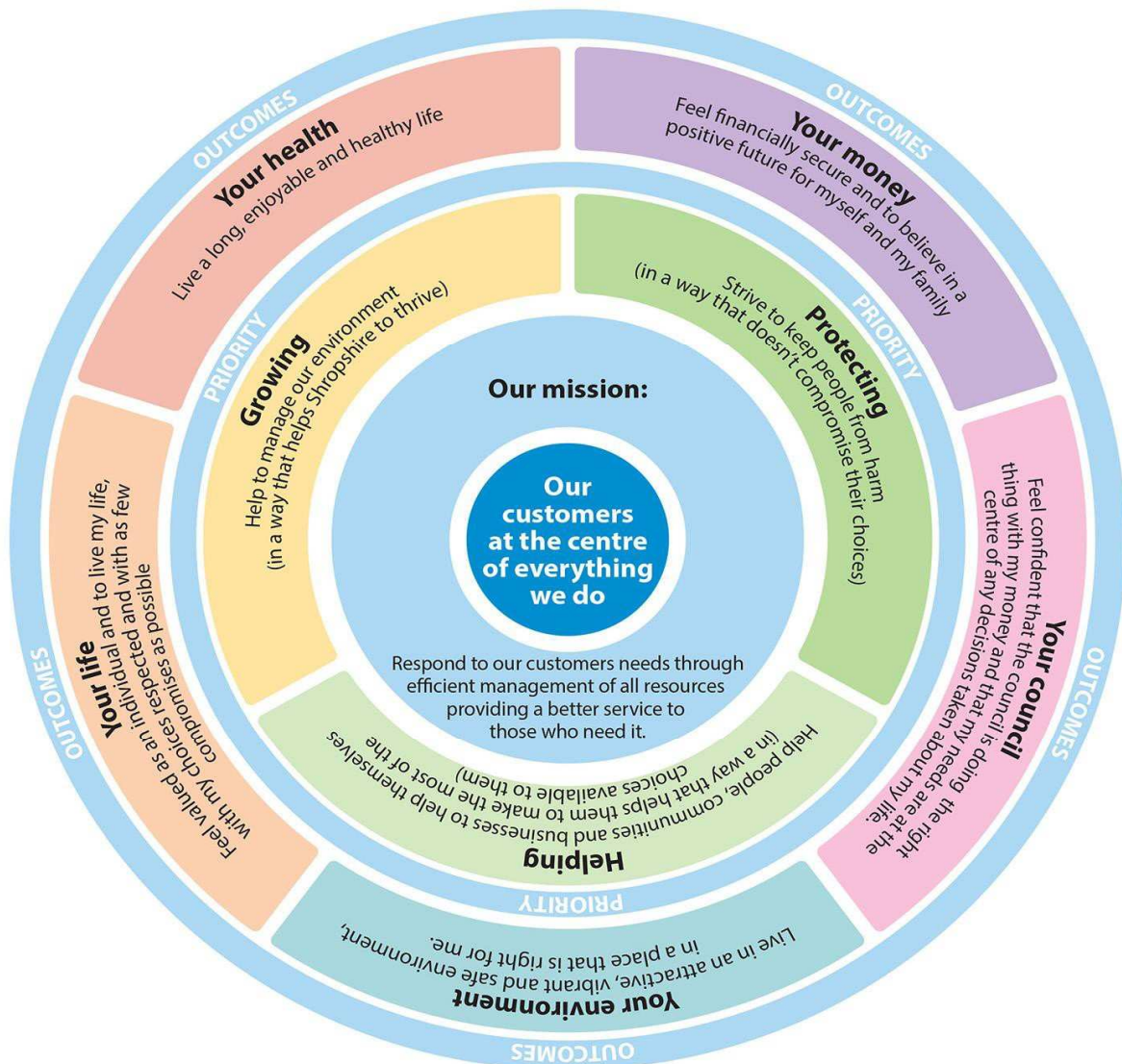
8. The Council's Constitution is updated annually and sets out how the Council operates. It states the matters reserved for decision by the whole Council, the responsibilities of the Leader and Cabinet, the matters reserved for collective and individual decision, and the powers delegated to panels, boards, committees and wider bodies such as partnerships. Decision making powers not reserved for members are delegated to directors and senior managers. The Monitoring Officer ensures that all decisions made are legal and supports the Standards Committee in promoting high standards of conduct amongst members. **Annex A** identifies the process which leads to the preparation of the Annual Governance Statement and it being signed off and published with the Statement of Accounts. The Local Code of Corporate Governance is reviewed annually and reported to Audit Committee.
9. The Cabinet is the Council's key decision making body and makes decisions within the policy framework approved by Full Council. It is made up of the Leader, and up to nine members. Key decisions are published in the Executives' Forward Plan and are discussed with Council officers at a meeting of the Cabinet, normally open for the public to attend, except where confidential matters are being discussed. The Cabinet can only make decisions which are in line with the Council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this must be referred to the Council as a whole to decide.
10. Senior Management are responsible for overseeing and monitoring the control environment as an integral part of the risk management process. This key management responsibility is supported by the three statutory officers; the Head of Paid Service (Chief Executive), the Chief Financial Officer (Head of Finance Governance and Assurance) and the Monitoring Officer (Head of Legal, Strategy and Democratic Services) the roles of which are set out in the Constitution, plus Internal and External Audit and other external review agencies, such as Ofsted, the Care Quality Commission etc.
11. The Council's financial arrangements confirm with the governance requirements of the CIPFA, "Statement on the Role of the Chief Financial Officer in Local Government (2010)" as set out in the "Application Note to Delivering Good Governance in Local Government: Framework". The Chief Financial Officer (Section 151 Officer), Head of Finance Governance and Assurance, has statutory responsibility for the proper management of the Council's finances and is a key member of the Council's senior management team reporting directly to the Chief Executive (for the last three months of the year and previously to that he attended senior management meetings to ensure financial support at the highest levels). He formally devolves the management of the Council's finances within services to directors through a scheme of delegation. Directors further devolve decision making through service schemes of management. The Section 151 Officer also provides detailed financial rules, guidance and finance training for members, managers and staff.
12. The Council's assurance arrangements conform to the governance requirements of CIPFA's "Statement on the Role of the Head of Internal Audit (2010)". The Audit Service Manager reports functionally to the Audit Committee, which approves the Audit Plan and receives performance reports throughout the year on audit and anti-fraud activity as well as the annual report and opinion on the internal control framework.
13. Whilst the Audit Service Manager is responsible for its compilation, the Annual Governance Statement is prepared with the full engagement of senior management and key officers, using data collated from all areas of the Council.

14. The Council has in place an effective Audit Committee which provides independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance process, including scrutiny of Treasury Management strategy and policies. The core functions of the Audit Committee are undertaken in accordance with CIPFA's, "Audit Committee – Practical Guide for Local Authorities".
15. The Constitution includes codes of conduct for both members and staff. These are reviewed regularly to reflect any necessary changes and all members and staff have a responsibility to ensure compliance with established policies, procedures, laws and regulations. Training and awareness sessions are provided for officers as necessary and appropriate induction sessions are arranged for all new staff and members.
16. The Head of Legal, Strategy and Democratic Services is the Council's Senior Information Risk Owner (SIRO) and there is an Information Governance Group which considers and reviews risk assessments and current issues on the use of personal information. Risk assessments are updated to reflect system and service changes. All employees handling personal data are required to undertake appropriate training on line.
17. Monitoring of compliance is delivered by relevant key officers, including the Section 151 Officer (Head of Finance, Governance and Assurance) and the Monitoring Officer (Head of Legal, Strategy and Democratic Services).
18. The Chief Executive continues to show his commitment to engage with and support staff by providing regular updates and key messages through emails and he regularly visits places of work to engage with staff.

Openness and comprehensive stakeholder engagement

19. The Council's Business Plan and Financial Strategy 2014-17 has been reviewed and refreshed for 2015/6 onwards. The plan sets out an approach to redesigning everything the Council currently does and how best use will be made of the resources available. The financial strategy takes account of any known transfer of services to other delivery models to ensure that the Council's financial position is understood and reflected ahead of any decision taken to approve a transfer. It remains flexible and responsive to emerging local issues and significant national developments such as the Care Act, whilst continuing to focus on delivery of the Council's outcomes as detailed in the diagram overleaf.
20. The Council continues to develop its Inspiring Partnerships and Enterprise initiative (ip&e), comprising two companies: ip&e Limited and ip&e Trading. The Chair of ip&e Ltd is the elected Leader of the Council, the Chair of ip&e Trading is Cllr Michael Wood. Both chairs are supported by boards of directors, appointed by the Council Cabinet. There is also an Officer Director appointed to each company to ensure the companies work within the overall aims and objectives of the Council. The Cabinet acts as shareholder on behalf of the people of Shropshire. A Cabinet member has Portfolio Holder responsibility for ip&e.
21. The Cabinet appoints the Chief Operations Officer of ip&e Ltd, who manages resources. This post is held currently by the Director of Resources and Support on secondment from the Council. There are also partial secondments in place to cover the roles of Finance and Commercial Director and Director of HR.

22. ip&e Limited is a Teckal company and has a strategic contract with the Council to enable it to provide services on its behalf. Delivery against the strategic contract is reviewed regularly, in routine meetings that are conducted between Shropshire Council and ip&e. There are individual contracts in place for each of the services that ip&e Ltd deliver on behalf of the Council. The contracts set out what is expected of each party, and specifies the funds the Council will provide to ip&e Limited to deliver services, and the outcomes and/or outputs that are required. Each contract has a commissioning lead who measures the performance of the individual contracts on a routine, agreed basis, as per the contract.
23. Prior to service areas being considered for transfer, a robust process is followed to ensure a financially viable business case is developed that has considered all aspects in relation to human resources, legal, ICT, finance and risk. Once these elements have been satisfied, the business case is then put forwards to Cabinet for consideration.



24. ip&e Limited and the Council agree a business plan each year to set out its proposals and intentions for the forthcoming year. The business plan is approved by both Cabinet and the Board of ip&e. To date, two business units have been established within ip&e Limited: ip&e Communications and ip&e Business Design (a programme management and business design service). Ip&e Trading to date is not operational as all business has been conducted through the ltd company.
25. A high level Directors' Commissioning Group has been established to monitor the overall progress of ip&e Ltd and other new delivery models. Individual directors and portfolio holders are responsible for the effective management of change and transformation in their areas but will also report through to this Group, where relevant.
26. A revised performance framework was implemented in 2014/15 to measure the Council's delivery of change, as well as the impact of commissioning decisions on Council outcomes. Quarterly performance reports are presented to Cabinet and Scrutiny Committees. The reports highlight any areas of concern. These are monitored and Cabinet will refer issues of continuing concern to Scrutiny for review.
27. The savings target and proposals for the period 2014 to 2017 were agreed by Council in February 2013 as £80m and £83m respectively. The target for 2015/16 was set at £20m, the proposal £26m.
28. Progress against achievement of the 2014/15 savings proposals of £39m has been monitored throughout 2014/15 and as part of this budget monitoring process, service pressures in year and ongoing have been identified. Where there has been a delay in achieving savings or the planned savings have not been achieved, management action has been taken to find alternative savings and offset service pressures to seek to balance the 2014/15 budget, the details of which appear in the quarterly revenue monitoring reports to Cabinet.
29. For 2015/16, the Financial Strategy to Council on 26 February 2015 recognises that of the initial savings proposals of £66m (2014/15 and 2015/16), £59m is expected to be delivered leaving a shortfall against the total proposals. It also highlights service pressures of £7.6m in 2015/16. The report identifies how the total 2015/16 potential budget shortfall of £15m can be found to provide a balanced budget for 2015/16.
30. There is an established Opportunity Risk Management Strategy in place supported by a Risk Management Governance Structure of officers and members with key responsibilities for maintaining the profile of risk management across all areas of service. The Strategy is signed and endorsed by the Chief Executive.
31. The strategic risks for the Council have been identified. High level risks are aligned to the action plans resulting from this Annual Governance review, and actions have been put in place where possible to ensure minimal disruptive impact on the delivery of the Council's outcomes. The strategic risks are updated monthly and reported to the informal Directors and Cabinet monthly meetings. All committee reports include a section on risk assessment and opportunities appraisal and all risks have owners.
32. The Council recognises the importance of communicating its vision and uses a number of channels to this effect. As well as intensive re-design work with specific communities:

- People can email, call, write or visit customer service points. They can visit the Council website and complete an online report form or join in an online conversation;
 - They can use one of the many social media channels – to ask a question on Twitter or Facebook , or comment on one of the Council’s You Tube channels;
 - The Council holds a wide range of public meetings at which people can find out more and have their say;
 - People can call or email their local councillor or the appropriate Cabinet member, to ask a question or pass on a comment;
 - The latest news from the Council can be found on the online Newsroom, Twitter feed and in local and regional media.
33. The Council regularly consults with the public on strategic decisions and service developments. For example, a group of people, including previous members of the People’s Panel, have signed up to provide feedback to the Council, via email. These consultees have been used to seek views on annual budget proposals; taxi licensing fees; the Shropshire Local Offer; and drug and alcohol treatment systems in Shropshire. The people on the consultation list also provide a quarterly view of the public’s perception of how the Council is changing. This is a feature of the Council’s Performance Management Framework
34. The Council also undertakes locality commissioning. This work starts with initial subject specific data and requires consultation and engagement with the local community to provide intelligence to compliment detailed reviews of systems and customer experiences. The findings are used to challenge service providers and commissioners, and enable informed decision making about the need to and the permission required for change. Full locality commissioning activity has taken place in four market towns so far and has involved the use of Local Joint Committees.
35. The Council has a zero tolerance to fraud, corruption and bribery and is self-regulating in respect of Counter Fraud. It undertakes a self-assessment, identifies its risks and understands them. It acknowledges the problems and puts in place plans which demonstrate that action is being taken and outcomes are visible. It is transparent about this process and reports to both the senior managers and to those charged with governance.
36. Guidance on ‘Speaking up about Wrongdoing’ which incorporates whistle blowing is distributed to staff, members and contractors. Any irregularities identified will be investigated by Internal Audit or the appropriate officers within the Services. Audit Committee are responsible for the monitoring and overview of the “Speaking up about Wrongdoing Policy” and receive an annual report.

People

37. The Council continues to invest in staff and members to ensure engagement and motivation.
38. Implementation of the Council’s values and behaviours starts at Induction. All staff can access an electronic skills assessment and a management development toolkit. Staff can discuss development needs with their manager and identify relevant training from a core skills programme.
39. Member development is delivered through a Community Leadership and Development Framework of blended learning, structured enough to ensure good planning and flexible enough to remain dynamic. It comprises of the induction programme, essential training

which all Members are asked to undertake, the Member briefing programme, and individual assessment of development needs.

Partnerships and other joint arrangements

40. The Council continues to support a range of joint working initiatives to improve service performance and delivery. Governance arrangements in respect of partnerships and other group working are identified within the Constitution, Financial Rules and the Corporate Performance Management Framework.
41. The Shropshire Compact is a set of shared commitments and guidelines for effective partnership working between Shropshire's public sector bodies and the Voluntary and Community Sector (VCS). A Compact Group leads this work for the county, details of which appear on the Council's web site. The Shropshire VCS Assembly also ensures the Compact is integrated into cross-sector policy and projects. The Assembly has around 300 members with a Board and 16 forums of interest. Forums of interest are groups of voluntary and community sector organisations with a common interest (for example heritage, arts, disability, etc.). The Assembly undertakes regular communication activity to involve its members in events, tender opportunities, consultations and to promote funding opportunities, it works to develop new policy and guidance designed to establish a common vision and set out new partnership approaches and expectations. Public sector representatives join the VCS Assembly Board regularly in addition to joint working through task groups.
42. A number of public health services are delivered by the Council in conjunction with the local NHS and other services in the area to provide information and services to promote healthier lifestyles.
43. Shropshire Towns and Rural Housing Ltd (ST&RH) manages homes and neighbourhoods on behalf of the Council, collecting rent, organising repairs and making improvements to the housing stock. The 'management agreement' between the two parties sets out in detail the 'who-does-what' between the two organisations. It includes arrangements for checking how ST&RH performs to make sure high standards are maintained.

Review of effectiveness – how do we know our arrangements are working?

44. The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness of the governance arrangements is informed by the work of the directors and senior management who have responsibility for the development and the maintenance of the governance environment, the Audit Service Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
45. The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes the following:
46. The Head of Paid Service, Chief Financial Officer and the Monitoring Officer all contribute to the identification of any known areas of weakness which may need to be addressed. Led by the Chief Executive, all directors, area commissioners and senior managers have confirmed that, to their knowledge, internal control systems and governance arrangements are

operating adequately in their areas and/or steps are being taken to address known areas of weakness.

47. Management Team have provided assurance that the arrangements generally continue to be regarded as fit for purpose in accordance with the governance framework. Where there are exceptions and services have been identified as having fundamental or significant risks in their management controls, for example the infrastructure IT systems, these form part of an on-going process of service improvement which are managed, monitored and reported upon. Progress on key system internal control areas is also being reported to Audit Committee. The significant areas to be addressed for the Council and activities for their management are outlined in the action plans later in this statement.
48. The Council has implemented the actions agreed in the 2013/14 Annual Governance Statement. A summary of which appear below:

Deliver value for money through commissioning

The first year of our business plan/financial strategy has been successfully implemented. Savings of circa £40m are expected to be fully delivered. A refresh of this plan and strategy has been produced and was approved by Council in March 2015 as part of our budget setting process.

The Director team are now looking at a financial plan for the next five years to 2020. We expect to engage Cabinet, Council, staff and the public with shaping this over the 2015/16 financial year.

Work has been completed to develop the Council for commissioning. A commissioning strategy has been completed. The Cabinet has agreed to further transforming the Council to commission everything that we do. Further progress on this will be made during 2015/16.

Review the Council's financial reserves to ensure the level is appropriate to risk

A risk assessment was undertaken and reported to Cabinet 11 February 2015. The General Fund Balance risk assessed level for 2015/16 is £15.86m. The estimated level reported to Cabinet is currently £14.535m, based on £0.371m overspend. A variance of £1.325m is acceptable, given the Council's recent history of delivering a balanced budget and compliance with financial plans.

This is no longer a significant risk for inclusion as an action in this statement.

Staffing resources skills and abilities match business needs

Although there has been significant reductions in staff, services have adapted and outcomes for citizens have been maintained. Notably, our Adult Social Care, which is a high cost one, has been recognised as being the lowest cost per capita nationally whilst also being noted as the highest quality by the Care Quality Commission.

As the Council develops into commissioning, new skills will be required. The Director team have undertaken initial work with the University of Chester to explore collaboration in developing a competence based training and accreditation programme leading to post graduate qualifications in public sector commissioning.

Improved IT infrastructure to manage business continuity risks

The Council has undertaken work to ensure that its ICT infrastructure conformed to the recommendations set-out in the Public Services Network (PSN) guidance for 2014/15. A designated project manager has been identified to manage future changes to the PSN standards and future work will be treated as a project. Regular progress reports will be provided to Directors, the ICT Portfolio Holder and members as appropriate.

An ICT programme of work is being developed to provide Shropshire Council with a level of control around its key projects. This will identify those projects which ensure that robust ICT solutions and resilience are implemented in a timely manner and, as a priority, that Disaster Recovery and Business Continuity is in place to ensure the ongoing management of material systems and service delivery is maintained to the highest standard. This programme of work will be aligned to the Council's priorities and will be included in the future ICT roadmap as part of the wider ICT Strategy.

The Council has identified the key systems in operation and has started to work with suppliers to implement alternative hosting solutions to mitigate business continuity and disaster recovery issues.

The ICT Strategy is currently being developed and will be published later this year.

Robust business cases to deliver services

During autumn 2014 Directors established a commissioning and service transition process that included a common approach to business cases and redesign work associated with new delivery models. This includes a robust set of guidance notes, fact sheets, templates and checklists. This information is available to staff via the Council's intranet.

Improved monitoring of contracts

In order to create consistency of approach, understand skill sets amongst those staff that manage contracts, and to establish best practice, a small team of officers undertook a review of Shropshire Council's contract management across all areas by looking at the Top 50 contracts (in value) and to understand how these contracts are managed at present, what is working well and is deemed industry best practice and also identifying those areas that could learn from others.

Phase 1 – Review of existing approaches

Officers undertook a series of meetings with both individual internal contract managers and external Contractors to ascertain where the Council is now in terms of the effectiveness of

the management of its major contracts. The meetings used set questions to allow us to undertake a consistent overall assessment.

Information was also sought on areas of best practice for contract management, from a range of sources including Improvement and Efficiency West Midlands (IEWM) and other West Midlands Authorities and Procurement Groups. The Council's management team also received a presentation from a specialist Contract Management consultancy, Newcomen who provided details of the important elements of Contract Management and its current relevance.

Through the above work the following have been identified as the key elements to successful contract management:-

- Negotiation;
- Market/Contractor Engagement;
- Contract Initiation;
- Contract Administration;
- Performance Monitoring;
- Supplier Viewpoint;
- Relationship Management;
- Contract development and improvement.

These elements form the basis of the Contract Management module within the Commissioning Training Programme.

In addition, best practice indicates that the Council needs a clearly documented framework and guidance available to all officers with a reporting and review mechanism.

Phase 2 – Creating the new Approach to Contract Management

A new Council Commissioning Support Unit is being established by summer 2015, pulling together into a single team all of the key functions that support commissioning currently. This will enable all team members to have a greater understanding in all areas as opposed to being purely focussed on a specialist area of commissioning.

Initially, a key area of work for the team will be to establish a consistent approach to contract management that ensures key principles are followed that builds in sufficient flexibility, depending on the size and nature of the contract. Development of this approach will draw on learning from the Phase 1 review. This will include as a specific Contract Management module, the documented framework and guidance for officers as part of the overall Commissioning Training programme aimed at developing a range of skills within the new Commissioning Support Unit.

Progress reports on this activity was reported to Audit Committee in 2014 and further updates are planned for 2015.

-
49. The Internal Audit Service complies with the requirements of the Public Sector Internal Audit Standards and works continually with managers in assessing the risk management, control and governance environment, enhancing processes where necessary. A risk based internal audit plan is in place which examines all key financial and managerial systems. This is endorsed by the Audit Committee and reports on counter fraud activity.
 50. On the basis of the work undertaken and management responses received; the Audit Service Manager has qualified her overall opinion on the Council's internal control environment. This

is based on the continuing numbers, and negative direction of travel, of the internal audit assurances provided on the IT infrastructure systems. These risks are already known to Directors and Members and are reflected in the strategic risk register. The IT infrastructure on which Council applications operate continues to present a clear risk to service continuity. The issues identified are sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their plans to address the matters raised. Whilst identifying these control weaknesses and highlighting them to management, there has been no evidence of significant IT business failure or material errors that could result in a material misstatement in the Council's accounts and reliance can still be placed upon them for that purpose.

51. Members and officers have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee which supports the Audit Service Manager, and that these issues are sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their plans to address the issues identified. Audit Committee continue to monitor planned improvements.
52. In their Audit Findings for the year ended 31 March 2014, the External Auditor provided an unqualified opinion on the financial statements and an unqualified VFM conclusion, "Overall we are satisfied that in the short-term the Council is in a sound financial position. It is taking actions to identify medium-term requirements and options. There remains significant uncertainty and it will be important for the Council to ensure that future financial plans are fully developed, agreed and delivered. On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014". A single recommendation was made to ensure that the Council complies with the requirements of IFRS 10,11 and 12 and IAS 27 and 28 in the 2014/15 financial statements following changes to the accounting standards and Code of Practice and discuss any specific issues with the auditors; managers were fully signed up to this.
53. The External Auditor also issued an unqualified opinion on the Pension Fund.
54. Cabinet monitors the effectiveness of the internal control system via consideration of regular performance and financial information reports from the senior management. Cabinet members receive regular feedback from senior officers within their portfolios on the progress of objectives and the management of risks linked to these objectives. Each portfolio holder produces an annual report to Council on performance in their area and areas which require improvement.
55. Scrutiny Committees have a role in the review of policies and their outcomes, development of new policies and in the performance of services. Scrutiny Chairs produce an annual report on the work of their panels.
56. During 2014/15 all Shropshire Council's adult services, registered by the Care Quality Commission (CQC), maintained their compliance status with CQC. No inspections were undertaken by CQC during the year as previous inspections in 2013/14 had deemed them to be meeting each of the standards assessed (the highest possible outcome). During the year 2014/15 two registered services, Shared lives and Community Living, were transferred to an external provider. Both services have maintained their registration and compliance status following transfer.

57. Adult Social Care services in Shropshire have been subject to peer reviews as part of the ADASS1 West Midlands sector led improvement programme. The service was assessed by "Peers" from Hereford, Sandwell and Wolverhampton. The feedback was positive and our transformation described as innovative. As a result a number of other local authorities, either regionally and nationally have either visited Shropshire or requested information.
58. Adult Social care participated fully in regional work on prevention, again as part of the sector led improvement programme. The resulting published report cites Shropshire extensively as demonstrating good and innovative practice in this area.
59. The Council's Scrutiny Committees have continued to maintain an overview of the Council, but have also taken a clear view of the changes that have been made to services provided or commissioned by the Council. The Enterprise and Growth Scrutiny Committee have had a Task and Finish Group which has worked closely with the development of a different way for the Council to support and enable Economic Growth in Shropshire, making recommendations that support the structural changes, identify the need to improve access to information and advice and communicate opportunities, and identifying strategic decisions that the Council should take about its purpose and role in promoting and enabling Economic Growth in Shropshire. The Health and Adult Social Care Scrutiny Committee have had a member working group focusing on what measures and information will be required to understand and evidence the impact of the Council's new Adult Social Care Operating Model. These measures are being used to form a new revised dashboard for regular reporting and consideration by Members and officers.
60. In December 2014 schools' performance, as measured by Ofsted inspection judgements, demonstrated improvement: 69 per cent of Shropshire secondary schools were judged by Ofsted to be good or outstanding; 75 per cent of pupils attended good and outstanding secondary schools; 82 per cent of Shropshire primary schools were judged to be good or outstanding and 84 per cent of Shropshire pupils attended primary schools judged to be good or outstanding. In December 2014 there was one secondary school and two primary schools in a category of special measures and in these circumstances the Council is required to set out its action plan for improvement. All action plans have been approved by Ofsted and the Council's support for these schools has been judged to be effective.
61. Ofsted undertook an unannounced safeguarding inspection in Shropshire on the 19th to the 28th November 2012. The overall judgment was 'Adequate', meaning that Shropshire meets the requirements in terms of quality of practice, leadership and governance and effectiveness of help and protection. The strong or good elements related to timeliness of assessments, the direction of travel and the good potential for Early Help arrangements. The areas for development were largely focussed on referral and decision-making processes. All recommendations have been addressed and reported to the Safeguarding Board and have continued to be improved. Shropshire's Children's Services are currently preparing for the new unannounced inspection of their services, under the new Ofsted framework which commenced nationally in 2013. Preparation continues through 2014/15. June 2015 a Peer Review will take place conducted by the LGA, this is an extensive review and will support the service to identify area of best practice to be enhanced and area of weakness to be addressed as part of the preparation for Ofsted.
62. Shropshire's children's homes: during 2014/15 review and development of the Shropshire residential care provision was undertaken. The homes work in partnership to provide the best outcomes possible for Shropshire's 'Looked After Children'. The homes incorporate the

¹ Directors of Adult Social Services

Council's objectives into team action plans and development plans; along with legislation and national guidance these form the basis of the service delivery. The Rowans, Chelmaren and Havenbrook have all been inspected in 2014/15 and judged by Ofsted for overall effectiveness. Chelmaren was rated as outstanding, Havenbrook and Rowans judged as 'Good'.

63. Direct quotations from the Ofsted inspections include: 'Staff have an excellent understanding of young people's needs and safe working practices'. 'Young People develop very positive relationships with staff which underpins the outstanding levels of care and support they receive' and 'internal and external monitoring of the home takes place regularly...Reports appropriately review performance and identify areas for improvement'.
64. As part of the development of services to children in care and to support children on the edge of care, Havenbrook was launched as a residential short breaks service in June 2014. Following the outcomes for children being positively identified in the evaluation as well as a saving to the Council through prevention of care, Havenbrook was confirmed as a permanent short breaks service in January 2015.
65. The redesign was completed in April 2015 with the closure of the Rowans and investment in new outreach worker posts providing support to young people and families in the community, supporting sustained rehabilitation plans and prevention of care. Chelmaren continues as a medium to long term residential unit and is undergoing building work to increase capacity to care for up to six children.
66. During 2014/15 two inspections took place, out of a total of 39 Children's Centres. Both received a judgement of 'Good,' for both overall effectiveness and capacity to improve.

Significant governance issues

67. The main challenges facing the Council appear below and are set in the context of delivering services to acceptable standards whilst achieving the budget savings required in 2015/16 and the overall funding gap of £80m as identified as part of the Business Plan and Financial Strategy. To ensure this is delivered and strategic risks managed, the Council will:

	Action	Strategic Risk	Lead Officer	Completion date
1.	Identify a clear ICT Strategy for future delivery and as part of this, improve the ICT infrastructure to ensure it is fit for purpose, robust, PSN compliant and provides cover for business continuity. The ICT Strategy should be fully aligned to the Council's Asset Strategy, Digital Strategy and Customer Involvement Strategy and the Council's Business Plan and Financial Strategy.	Non implementation of robust ICT solutions and resilience to support the direction of travel results in significant impact on access to, and management of, material systems and ultimately service delivery.	Rod Thomson	March 2016

	Action	Strategic Risk	Lead Officer	Completion date
2.	<p>Regularly monitor and review delivery against the second year of the Council's Business Plan and Financial Strategy and adjust plans as required at Director and Cabinet levels to achieve a balanced budget.</p> <p>Ensuring that supporting strategies, i.e. ICT and Workforce development align closely.</p>	<p>Failure to meet savings and income targets resulting in an illegal budget, leading to an inability to deliver vital services.</p>	James Walton (all Directors input)	March 2016
3.	<p>Regularly monitor and review delivery of the Council's Business Plan and Financial Strategy to deliver outcomes whilst managing demand and delivering value for money through commissioning.</p>	<p>Failure to clearly articulate the strategic vision of the Council results in loss of momentum to deliver the redesign outcomes from the business planning process and associated workforce transformation.</p> <p>Failure to re-design of the Council impacts on delivery of services to citizens of Shropshire.</p>	Clive Wright (all Directors input and Head of Human Resources)	March 2016
4.	<p>Ensure that the staffing resources, given the changing shape of the Council, continue to remain skilled, knowledgeable and appropriate to deliver the Council's business plans. Especially for commissioning and ICT resources.</p> <p>Implement a workforce plan aligned to business plans and supported by our staff development processes.</p>	<p>Insufficient capacity, experienced and qualified staff to sustain services during re-design</p>	Clive Wright	March 2016
5.	<p>Continue to build appropriate governance arrangements into the commissioning Council to</p>	<p>Inadequate governance arrangements in place to manage the transforming Council (and business as</p>	George Candler (all Directors input)	March 2016

	Action	Strategic Risk	Lead Officer	Completion date
	<p>maximise value for money and ensure the best return for the local tax payer. Including:</p> <ul style="list-style-type: none"> • Developing a more cohesive and robust way of monitoring contracts as part of the re-design of Council functions. • Further clarifying commissioning intentions (stop/do/buy). • Coordinating operationalisation of locality working. • Improving transfer arrangements to ADMs. 	<p>usual governance to support the re-design process) resulting in poor quality service, longer delivery times or higher cost of transformation. Insufficient standardisation and consistency within contract management and monitoring results in failure to support our outcomes and achieve value for money, efficiencies and innovation as we move towards becoming a commissioning council.</p>		
6.	<p>Ensure robust business cases for any project involving redesign and new delivery models are properly constructed, appropriately consulted upon and scrutinised to ensure they meet the requirements of the Business Plan and Financial Strategy and are financially viable before any implementation decision. Business cases should follow the guidance available on the Intranet.</p>	<p>Implementation and impact of alternative service delivery vehicles (e.g. ip&e ltd) resulting in destabilised remaining services.</p> <p>Loss of reputation and public confidence in the Council by failing to meet public expectations and identified need.</p>	Clive Wright (all Directors input)	March 2016
7.	<p>Review safeguarding governance arrangements and processes in consultation with key stakeholders</p>	<p>Failure to safeguard vulnerable adults and children</p>	Stephen Chandler and Karen Bradshaw	March 2016

68. The associated strategic risks have been identified, remain under close review and will be managed throughout the year given that they are key to ensuring the continued delivery of high quality services.

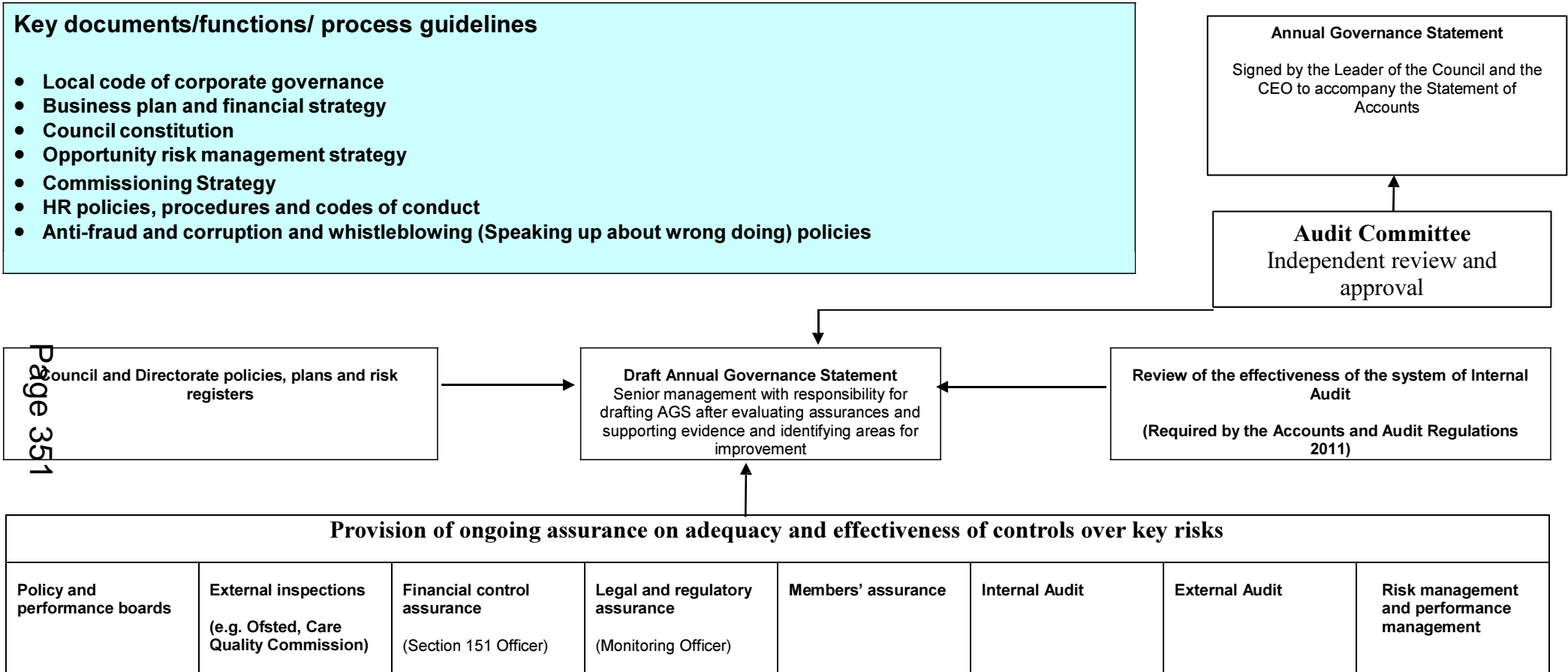
69. Over the coming year, we propose to take steps to address the above matters to further enhance the Council's governance arrangements. We are satisfied that these steps will

address the need for improvements identified in the review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Leader

CEO/ Head of the Paid Service

ANNUAL GOVERNANCE STATEMENT (AGS) ASSURANCE FRAMEWORK 2014/15



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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
25 June 2015	
10.00am	<u>Public</u>

ANNUAL REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT AND QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP) 2014/15

Responsible Officer James Walton

e-mail: james.walton@shropshire.gov.uk

Tel: 01743 255011

1. Summary

- 1.1 The Accounts and Audit Regulations 2011 require the Council to conduct an annual review of the effectiveness of its internal audit; Audit Committee is required to review this report and its findings.
- 1.2 This report provides the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit Standards (PSIAS). Compliance with these standards demonstrates an effective Internal Audit service.
- 1.3 This review should be read in conjunction with the Annual Internal Audit report, found elsewhere on this agenda. When read together the two reports demonstrate the effectiveness of internal audit. The update of the self-assessment has confirmed that the Council continues to operate an effective Internal Audit function. There are no areas where the Internal Audit function is not complying with the Code and whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code.

2. Recommendations

- 2.1 The Committee is asked to consider and endorse, with appropriate comment, the conclusion that the Council has an effective system of internal audit in place that complies with the principles of the Public Sector Internal Audit Standards and has planned improvement activities to ensure full compliance.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 An effective Internal Audit Service provides, 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'. Thereby providing assurances on the Council's internal control systems by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Internal Audit will also continue to align its work with the Strategic Risk Register.
- 3.2 The use of a consistent framework for internal audit across the UK public sector has benefits for both partnership working and for internal auditors who work across different parts of the public sector. The standards are designed to drive improvement and lead to better public finance arrangements.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.4 There are no direct environmental, equalities or climate change consequences of this proposal. Consultation has been used to inform the evidence gathered in support of the self-assessment against the Public Sector Internal Audit Standards (PSIAS).

4. Financial Implications

- 4.1 The Internal Audit service is provided within approved budgets. There may be a small cost to enable an external assessment of Internal Audit's conformance with the PSIAS in compliance with standard 1312 (external inspection) to be conducted. Presently this remains unassessed and information will be provided when relevant.

5. Background

- 5.1 The Accounts and Audit Regulations 2011 6(3), requires the Council to undertake an annual review of the effectiveness of its internal audit and to report the findings of this review to the Audit Committee. This requirement is valid for the 2014/15 financial year, following which the Accounts and Audit Regulations 2015 no longer require this and any review of Internal Audit is in compliance with the Public Sector Internal Audit Standards (PSIAS).

- 5.2 The PSIAS are mandatory for all principal local authorities and have been effective since April 2013. They consist of:
- Definition of Internal Auditing;
 - Code of Ethics; and
 - Standards for the Professional Practice of Internal Auditing.
- 5.3 In April 2013, CIPFA produced a Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards. Internal Audit is reviewed using this guidance for compliance with the Standards, the results of which are summarised in **Appendix A**.
- 5.4 The PSIAS aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide the Head of Finance, Governance and Assurance (the Section 151 Officer) with the key assurances he needs in both managing the financial affairs of the Council and producing the annual governance statement.
- 5.5 In complying with the PSIAS Shropshire Council can provide assurances to Internal Audit's external customers of the teams' professionalism, quality and effectiveness.
- 5.6 **Appendix A** also provides an update against the previously approved improvement plan. The majority of standards are complied with totally. Where there are areas of non-compliance these are detailed below for members to consider further. Where further improvements have been identified in areas of compliance these, along with the actions outlined below, appear in the improvement plan within the appendix, to ensure full conformance to the standards in future.

Areas of potential non-conformance

- 5.7 **Code of Ethics - Objectivity Standard:** Do internal auditors display objectivity by not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?

Finding: It is felt important that internal audit is consulted during system, policy or procedure development. Auditors have been assigned to business review projects where there is a possibility that internal control systems will be affected. This is seen as an opportunity for internal audit to add value and strengthen internal control arrangements. Where specific auditors have been involved in providing system advice they will be excluded from carrying out the audit as far as possible i.e. another auditor would be allocated to the audit. If this was not possible, it is felt the benefit of using the experience of developing controls and procedures outweighs concerns of independence and the review process will help to ensure that the review and report remain objective and evidenced based.

Therefore there is **partial** conformance. This is not considered to be to the detriment of the principles of auditing and the independent review process helps to mitigate any risks, therefore no actions are proposed.

5.8 **1100 Independence and Objectivity Standard:** Does the Chief Audit Executive (CAE) confirm to the board, at least annually, that the internal audit activity is organisationally independent? The following examples **can be** used by the CAE when assessing the organisational independence of the internal audit activity: The board:

- **approves the internal audit budget and resources plan.**

Finding: It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee.

- **approves decisions relating to the appointment and removal of the CAE**

Finding: It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan, including the appointment and removal of the CAE, and to report any concerns to the Audit Committee.

Therefore **partial** conformance: Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that their remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector, CIPFA advise that this can be achieved by ensuring that the Chief Executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the Chair of the Audit Committee, this is completed for Shropshire Council.

Consideration is to be given to extending the opportunity for Chairs of externally serviced Audit Committees and their key officers to provide feedback, through the Section 151 Officer, on the Audit Service Manager's appraisal.

5.9 **1312 External Assessments Standard: Has an external assessment been carried out, or is planned to be carried out, at least once every five years?**

Finding: The new standards came in from the 1st April 2013. Therefore, an external assessment under the standards needs to be conducted by March 2018. No plans have been made for such an

assessment, but there is every intention to have one when further guidance on the requirements of the assessment is available.

The shape and size of the present Internal Audit team has changed and it is likely to change again to reflect the business plans of the Council in the future and therefore early completion of such an assessment may only be of short term benefit. Conversely an earlier assessment may inform the delivery of the service going forward. Early discussions with the Section 151 Officer and Audit Committee members have confirmed a preference for a later assessment once more details are known.

Therefore currently we are not conforming to the standard and propose to consider the approach and timing of an external audit assessment with the Section 151 Officer or a self-assessment with 'independent validation' when more guidance is available.

- 5.10 This is not considered a significant variation in respect of the principles of the PSIAS to require specific mention in the Annual Governance statement since the intention is to comply with the PSIAS within the prescribed time frames once further details are known.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p> <p>Accounts and Audit Regulations 2011 and 2015 Public Sector Internal Audit Standards 2013 Local government application note for the UK Public Sector Internal Audit Standards CIPFA Completed Conformance Checklist 2014/15 and supporting evidence</p>
<p>Cabinet Member (Portfolio Holder)</p> <p>Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee</p>
<p>Local Member N/A</p>
<p>Appendix A: Public Sector Internal Audit Standards 2013 conformance assessment and improvement plan</p>

Public Sector Internal Audit Standards 2014/15 conformance assessment and improvement plan

Standard	Conformance	Observations and actions proposed	When?	Who?
Definition of Internal Auditing	Yes			
Code of Ethics	Yes	Partial compliance with Objectivity: No action proposed: the independent quality review process of all files and therefore evidence mitigates the slight risks identified in the Audit Committee report		
Attribute Standards				
1000 Purpose, Authority and Responsibility	Yes	<p>Feedback for the Audit Service Managers appraisal from all clients CEO equivalents and Audit Committee Chairs will be considered</p> <p>Partial compliance with ensuring that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan and approving decisions relating to the appointment and removal of the CAE are not compromised if not completed by the Board. Other compensating controls are in place to mitigate these.</p>	Next appraisal	Section 151 Officer
1200 Proficiency and Due Professional Care	Yes			
1300 Quality Assurance and Improvement Programme	Yes	<p>There is a QAIP in place however, the IA manual and associated procedures would benefit from a review to include those processes which are now electronic and to reflect the standards</p> <p>External assessment: Consider the approach and timing of an external audit assessment with the Section 151 Officer or a self-assessment with 'independent validation'.</p>	<p>Ongoing</p> <p>March 2018</p>	<p>Audit Service Manager</p> <p>Section 151 Officer</p>
Performance Standards				

Standard	Conformance	Observations and actions proposed	When?	Who?
2000 Managing the Internal Audit Activity	Yes			
2100 Nature of Work	Yes			
2200 Engagement Planning	Yes			
2400 Communicating Results	Yes			
2500 Monitoring Progress	Yes			
2600 Communicating the Acceptance of Risks	Yes			

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Committee and Date

Item

Council 23 July 2015

Audit Committee

25 June 2015

Public

9:30 am

ANNUAL ASSURANCE REPORT OF AUDIT COMMITTEE TO COUNCIL 2014/2015

Responsible Officer James Walton

e-mail: James.walton@shropshire.gov.uk

Tel: 01743 255011

1. Summary

Attached to this report is the draft Audit Committee's Annual Assurance Report to Council for 2014/2015. This provides Council with an independent assurance report that the Council has in place adequate and effective risk management and internal control systems that can be relied upon and which contribute to the high corporate governance standards that this Council expects and has consistently maintained.

2. Recommendations

Audit Committee is asked to consider and comment on the contents of the draft Annual Assurance report for 2014/15 before forwarding to Council with the recommendation that they accept this report.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The Audit Committee's Annual Assurance Report is part of the overall internal control arrangements and risk management process. The Committee objectively examines and evaluates the adequacy of the control environment through the reports it receives and in turn can provide assurances to Council on its internal control systems that inform the Annual Governance Statement.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change requirements or consequences of this proposal.

4. Financial Implications

There are no direct financial implications from this report

5. Background

- 5.1 A key part of the Audit Committee's role is to provide independent assurance of the adequacy of the risk management framework and the associated internal control environment. The Committee oversees the financial reporting process and it also provides independent scrutiny of the Council's financial performance to determine the extent to which it affects the Council's exposure to risk and weakens the control environment.
- 5.2 The Audit Committee has a well established role within the Council and it is important that an Annual Assurance report based on the work of the Committee is produced and recommended to Council. In compiling this assurance report, information provided at the Audit Committee meeting on 25 June 2015 has also been taken into account.
- 5.3 In addition, this report has been reviewed to ensure its continuing compliance CIPFA¹'s Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition. Section 6.34 requires the Audit Committee to be held to account on a regular basis by the Council specifically in relation to:

Whether the:

- committee has fulfilled its agreed terms of reference;
 - committee has adopted recommended practice;
 - development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities;
 - committee has assessed its own effectiveness, or been the subject of a review, and the conclusions and actions from that review and,
 - What impact the committee has on the improvement of governance, risk and control within the Council.
- 5.4 The annual assurance report to Council for 2014/2015, attached to this report, is a helpful way to address the key areas where the committee should be held to account. **(Appendix A).**

¹ The Chartered Institute of Public Finance and Accountancy

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

CIPFA's Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition

Draft Internal Annual Audit Plan 2014/15 - Audit Committee 27 March 2014

Internal Audit Plan 2014/15 – Ten month review - Audit Committee 23 February 2015

Internal Audit Plan 2014/15 – Seven month review - Audit Committee 27 November 2014

Internal Audit Plan 2014/15 – Performance report- Audit Committee 18th September 2014

Internal Audit Annual Report 2014/15 – Audit Committee 25 June 2015

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee

Local Member

N/A

Appendices

Appendix A - Draft Audit Committee Annual Assurance Report 2014/15

DRAFT AUDIT COMMITTEE ANNUAL ASSURANCE REPORT 2014/2015

STATEMENT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

1. Governance of the public sector continues to be high profile with the Chartered Institute of Public Finance and Accountancy (CIPFA) supporting good practice in local government. In Shropshire we have a Code of Corporate Governance which is reviewed annually in line with the best practice issued by CIPFA and SOLACE²; we have also produced an Annual Governance Statement, again in line with best practice and legislative requirements. Being well managed and well governed are important attributes in helping to improve performance and in reducing the risk of failing to achieve our objectives and providing good service to our community.
2. Shropshire Council has a well-established Audit Committee in seeking to maintain and improve our governance procedures. The Committee is a key component of the Council's corporate governance arrangements and a major source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment and reporting on financial and non-financial performance.
3. The benefits to the Council of operating an effective Audit Committee are:
 - Increasing public confidence in the objectivity and fairness of financial and other reporting.
 - Reinforcing the importance and independence of internal and external audit and any other similar review process; for example, reviewing the Annual Statement of Accounts and the Annual Governance Statement.
 - Providing additional assurance through a process of independent and objective review.
 - Raising awareness within the Council of the need for governance, internal control and the implementation of audit recommendations.
 - Providing assurance on the adequacy of the Council's risk management arrangements and reducing the risk of illegal or improper acts.
4. The Committee continues to enjoy a pleasant though professional and at arm's length relationship, with Grant Thornton, the Council's external auditors, who attend all meetings of the Committee to offer their advice where needed.
5. The Committee undertakes a substantial range of activities and works closely with both our internal and external auditors and the Chief Finance Officer (Section 151 Officer) in achieving our aims and objectives. We have put together a work and development plan for the year to enable key tasks to be considered and completed.
6. As Chairman of the Audit Committee, I have always seen training as a key

² Society of Local Authority Chief Executives

priority for myself and the other members in order to undertake our roles effectively. The Committee continues to undertake a full and extensive programme of training and this year has been no exception. In addition, the committee has updated a self-assessment of its activities against CIPFA's practical guidance released in 2013 to ensure that it continues to adopt recommended practice. The results of which have informed the future development needs and will help to ensure that all members of the Audit Committee continue to have access to appropriate training and are provided with the skills and knowledge to enable them to fulfil their roles effectively and efficiently. Members also have access to CIPFA's Better Governance Forum network which provides specific information in the form of regular briefings, an informative web site and attendance at training events

7. I am pleased to pay tribute to the work of all my four colleagues and their substitutes who are enthusiastic in their interest in the purpose and objectives of the Committee and whose regular attendance at training sessions has been impressive. As Chairman of the Audit Committee, I believe we have helped contribute to improvements and developments in the Council's corporate governance, risk and internal control arrangements and I intend that we will continue with the high standards and contributions established by this Committee over a number of years.
8. This year we have held six meetings including the meeting held on 27 June 2015. Four of which were planned, the other two arranged for Members to receive a specific update from officers on the IT control environment. We have received and considered a substantial number of reports across key areas of the Council's activity (see **Annex A**). The care and attention of the Section 151 Officer, Audit Service Manager and her staff to ensuring that members receive all reports in time for adequate consideration has been impressive. The dedication of Audit staff to the preparation of our training sessions in order to ensure that members can understand and give critical appraisal to all documents has been appreciated. We have asked questions and received answers to our questions. In line with best practice, we are completely satisfied that we are in a positive position to provide our annual assurance statement based on the reports received and considered and on the information provided by our officers and our External Auditors.

Audit Committee Membership and Dates of Meetings

9. Membership of the Audit Committee for 2014/15 was made up of the following Councillors:
 - Mr B Williams (Chairman)
 - Mr M Wood (Vice Chairman)
 - Mr J Cadwallader
 - Mr M Williams
 - Mr C Mellings
10. And substitutes who are invited to attend and contribute at all meetings and training are:

- Mr D Carroll
- Mr R Macey
- Mrs P Moseley
- Mr R Evans
- Mr S West

11. Meetings of the Committee have been held on
- 18 September 2014
 - 27 November 2014
 - 10 February 2015
 - 23 February 2015
 - 5 June 2015
 - 25 June 2015

Details of Reports/Information Received

12. **Annex A** provides a summary of the key reports and information received by the Audit Committee at its meetings. These appear categorised in the areas which under the Audit Committee's Terms of Reference we have a responsibility to consider and report upon. They are:

- Governance;
- Risk management framework;
- Controls, including specific focus on:
 - Contracts and partnerships
 - Fraud, corruption and whistleblowing
 - Value for money
- Financial reporting and treasury management.

A detailed audit work plan has been agreed for the current year.

13. Following receipt of the reports the Audit Committee agreed that:
- There were effective arrangements for corporate governance and where improvements are required there is a clear improvement plan with dedicated lead officers that will be monitored by Members;
 - The Risk management framework was fit for purpose and operating as intended but expressed concerns over the reduced level of Internal Audit resources when compared to the risk profile demands of the Council;
 - On the whole key controls were fit for purpose, being operated as intended, and were monitored by management. Ongoing concern was expressed relating to the controls in place on the IT infrastructure systems. The Committee were dissatisfied with the lack of progress in IT meeting the agreed improved controls and requested further updates and assurance from them to future meetings of the Committee.;
 - There is effective management and monitoring of contracts and partnerships. Performance around the management of contracts and commissioning processes will be strengthened further during 2015/2016 as the Council's commissioning guidance is adopted more widely;
 - There were effective arrangements for the prevention and detection of fraud and corruption, and for enabling whistleblowing (confidential reporting);
 - There were effective arrangements to ensure Value for Money;

- Financial statements reflected the Council's true position, were complete including all transactions, and were prepared in accordance with International Financial Reporting Standards
14. Given the Audit Service Manager's qualified opinion on the Council's internal control environment, the Audit Committee confirms that it had been made aware of the increase in terms of numbers and negative direction of travel of the internal audit assurances provided on the IT infrastructure systems. It has sought further explanation and appropriate assurance from management to address the issues identified by Internal Audit which are already known and reflected in the strategic risk register. Given the significance of the systems attracting limited and unsatisfactory assurances with the Audit Service Manager's explanations; it is understood that Council application systems reviewed in the year were in the main given a reasonable or higher level of assurance, confirming that material application systems are generally well embedded, well administered and controlled. However, the IT infrastructure on which they operate continues to present a clear risk to service continuity sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their responses to address the issues identified. As the Audit Service Manager has reviewed these control weaknesses and highlighted them to management, the Audit Committee is satisfied that there has been no evidence of significant IT business failure or material errors that could result in a material misstatement in the Council's accounts and reliance can be placed upon them for that purpose.

Additional Responsibilities

15. Members of the Audit Committee and the Audit Service Manager and her staff are well aware of the changing nature of local government in relation to the greater responsibilities for innovative practice allowed by the Government's Powers of Competence Act. In particular we are aware that the Audit function have an essential and on-going role to play in monitoring the risks involved in the arrangements for strategic commissioning and the creation of a Council owned trading company for service delivery. Members continue to receive training in this extended aspect of their responsibilities, and the Audit Service Manager is ensuring that adequate resources are available in order to minimise any possibility of the risk of financial malpractice. Members of the Committee and Audit staff are fully seized with the need to keep "ahead of the game", as the role of local government changes and evolves to meet the challenges of severe reductions in many of the traditional sources of income.

Audit Service Staff

16. I have written above about the impressive manner in which Audit staff prepare the wide range of reports which are necessary for the consideration of Committee members. The key staff are James Walton, the Section 151 Officer, Ceri Pilawski, the Audit Service Manager and Katie Williams, her Deputy.
17. Without the enthusiastic and committed support of all Audit staff and, in particular, of the three officers mentioned above, it would not be possible for the Audit Committee to be as highly effective as peer comparisons show us to be. My thanks and that of my fellow committee members are given to all our Audit Service officers who are coping with an increasing workload with much reduced

numbers.

Annual Statement of Assurance

18. On the basis of:
- The work carried out by the Internal and External Auditors and their reports presented to this Committee;
 - Reports from service managers and
 - The work carried out by the Section 151 Officer, Audit Service Manager and their reports presented to this Committee.
19. It is the Audit Committee’s opinion, based on those reports, explanations and assurances received, that the Council continues to be aware that it is liable to increased risks in the currently operating IT systems. Whilst there is no evidence of significant IT business failure or material errors reported that could result in a material misstatement in the Council’s accounts; a number of internal control improvements have been agreed by management and require urgent dedicated implementation in order to improve internal control systems.

RECOMMENDATION – Council is invited to accept this report

Signed Date.....
On behalf of the Audit Committee
Brian Williams

Summary of assurance reports received by Audit Committee

Governance

Annual Governance Statement and a review of the effectiveness of the Council's system of internal control 2014/2015

Report of the Section 151 Officer on the effectiveness of the system of internal controls and the production of the Annual Governance Statement.

Annual review of the effectiveness of the system of Internal Audit and Quality Assurance and Improvement Programme (QAIP) 2014/2015

Report of the Section 151 Officer on the effectiveness of the system of Internal Audit in 2014/2015.

Annual Assurance report of Audit Committee to Council 2014/2015

Report of the Section 151 Officer in respect of the Audit Committee's Annual Assurance report to Council.

Audit Committee self-assessment of good practice

Report of the Section 151 Officer which requested members to review and comment on the self-assessment of good practice questionnaire to assess the effectiveness of the Audit Committee and identify any further improvements.

Review of the Audit Committee's annual work plan and future learning and development requirements 2015/16

Report of the Audit Service Manager providing members with a proposed work plan for the year ahead to ensure they received appropriate learning and development to deliver their responsibilities effectively to fulfil their roles as members of the Audit Committee

External Audit: Informing the Audit Risk Assessment for Shropshire Council

Report of the Engagement Lead (Grant Thornton) which set out the contribution towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'.

Review of Shropshire Council's Code of Corporate Governance

Report of the Engagement Auditor providing an update on the review of the Council's compliance with the Code of Corporate Governance.

The Audit Committee agreed there were effective arrangements for corporate governance and where improvements are required there is a clear improvement plan with dedicated lead officers that will be monitored by Members.

Risk Management Framework

Risk and Insurance Annual Report 2013/2014

Report from the Risk Management Team Leader which set out the challenges and achievements accomplished by the Risk Management Team during 2013/2014. She advised that both the Risk Management and Insurance teams had been audited with no recommendations identified. It was noted that strategic risks remained a key area for the

Risk Management Team and updates were regularly reported to the Senior Management Team and Cabinet

Internal Audit report of the review of Risk Management 2014/2015

Report of the Engagement Auditor which summarised the detailed findings identified in the Internal Audit review of risk management of which the overall control environment had been assessed as Reasonable.

Draft Internal Audit risk based plan 2015/2015

Report of the Audit Service Manager on the draft Internal Audit Plan for 2014/15. It was noted that the plan provided audit coverage across the Council's services and also delivered internal audit services for a range of external clients. The Audit Service Manager summarised the Audit Plan and confirmed that the plan could be adjusted during the course of the year as workflow dictated and indicated that this would be undertaken in consultation with the Section 151 Officer if necessary. The Committee expressed significant concern in relation to the reduction in resources and acknowledged the significant challenges faced by the Internal Audit Team as a result. The Head of Finance, Governance and Assurance (Section 151 Officer) undertook to bring this issue to the attention of the Senior Management Team and Cabinet to ensure they were fully apprised of the concerns of the Audit Committee. The committee resolved that the proposed Internal Audit Plan 2015/2016 be accepted and adopted with concern expressed that the reduced resources were close to failing to meet the risk profile of the Council.

The Audit Committee agreed that the Risk management framework was fit for purpose and operating as intended but expressed concerns over the reduced level of Internal Audit resources when compared to the risk profile demands of the Council.

Controls

Internal Audit Plan 2014/2015 Performance Report September 2014

Report of the Audit Services Manager which set out an update to the draft Internal Audit Plan considered by the Committee in March. She indicated that several changes both in the Council's structure and available resources had necessitated changes to the draft plan. The refined Internal Audit Plan provided members of the Committee with an update on the work undertaken by the Internal Audit Team between the 1st April and the 17th August 2014. The Audit Service Manager reported that despite a challenging start to the year, 28% of the revised audit plan had been completed to date which was in line with a year-end target of 90%. Members of the Committee were informed that since April 2014, 37 final reports had been issued with 25 good and reasonable assurances, one unsatisfactory and a further 11 limited assurance opinions issued.

Internal Audit Plan 2014/15 - Seven Month Review

Report of the Audit Service Manager provided members with an update of the work undertaken by Internal Audit since the last report considered in September 2014 and summarises progress against the 2014/15 Internal Audit Plan.

Internal Audit Plan 2014/15 - Ten Month Plan Report

Report of the Audit Service Manager which provided members with an update of the work undertaken by Internal Audit since the last report considered in November 2014 and summarised the progress achieved against the 2014/15 Internal Audit Plan.

Management Report on the Implementation of IT Control Improvements and Risks
Report by the Head of Service Support, Marketing and Engagement provided members with an update on work being undertaken to ensure that the ICT infrastructure was, and continued to be, fit for purpose, robust and PSN compliant. The Committee was advised that the ICT Governance Framework would in future be monitored by the Information Governance Group to ensure the appropriate measures were in place to meet legal and external compliance requirements and to ensure appropriate business continuity measures were in place. A further IT update was provided to Committee in June 2015. The Committee expressed dissatisfaction with the lack of progress against the agreed audit recommendations and requested management update reports to the June and September Audit committees and an independent Internal Audit update to their November committee.

Internal Audit: IT Update

Report of the Audit Engagement Officer which set out details of the work undertaken on the IT control environment by the Internal Audit Team. The Audit Engagement Officer reported that good progress had been made on implementing the agreed control improvements however, two audits had achieved the same unsatisfactory audit opinion as in 2013/2014 and identified further work required to mitigate the ongoing risks identified. Due to the levels of concerns highlighted within the report, members requested that an update report be circulated at the earliest opportunity to seek to assure members of improvements to the IT control environment. Due to the severity of the concerns raised by the Committee, it was agreed that a special meeting be convened to consider the matter further. Exempt reports were provided at a meeting on the 10th February 2015 and the Committee is following up ongoing progress with officers.

Internal Audit Annual report 2014/2015

Report of the Audit Service Manager on achievements against the revised internal audit plan for 2014/2015 and the annual internal audit assurance. The Audit Service Manager qualified her overall opinion on the Council's internal control environment based on the continuing numbers, and negative direction of travel, of the internal audit assurances provided on the IT infrastructure systems.

Management Report on Housing Benefit Overpayment Performance

Report of the Revenues Manager which provided members with performance monitoring information on the collection of income in respect of Council Tax and National Non Domestic Rates for the year up to 31 July 2014.

Management Report: Council Tax and Non Domestic Rates Performance Monitoring Report

Report from the Revenues Manager which set out the performance monitoring rates on the collection of income through Council Tax and National Non Domestic Rates for the year up to 31 March 2014 and progress on the year to 31 March 2015.

External Audit: Audit Committee Update Report

Report of the Engagement Lead (Grant Thornton) which summarised the emerging national issues and developments and identified a number of challenge questions in respect of the emerging issues.

Council tax and non-domestic rates performance monitoring report

Report of the Revenues Manager setting out performance monitoring information on the collection of Council Tax and National Non Domestic Rates (NNDR).

The control environment for compromise agreements

Report of the Head of Human Resources on the control environment for compromise agreements following a request from members.

The Audit Committee agreed that on the whole key controls were fit for purpose, being operated as intended, and were monitored by management. Ongoing concern was expressed relating to the controls in place on the IT infrastructure systems. The Committee were dissatisfied with the lack of progress in IT meeting the agreed improved controls and requested further updates and assurance from them to future meetings of the Committee

Controls: Contracts and Partnerships

Land sales – public question

A question received from a member of the public: “Can the Audit Committee give serious consideration to investigating all land sales that were conducted by a particular officer and that all land sales documents are kept for future investigation and made publically available on line?” was responded to by Council officers who explained the audit and retention of documents processes to the satisfaction of the committee.

Management Report on Programme Management Controls and Risks including Contract Health Check

Report of the Director of Commissioning provided a progress update on the Council’s programme management controls and contract management activities. Members’ attention was draw to the robustness of the governance arrangements for the change related activities arising from the Council’s Business Plan and Financial Strategy. The Director sought to assure members that the Council was managing its risk in a consistent, cohesive and resilient manner.

Update on programme management and the top fifty contracts, controls and risks

Report of the Director of Commissioning provided a progress update on the Council’s programme management controls and contract management activities.

The Audit Committee agreed there is effective management and monitoring of contracts and partnerships. Performance around the management of contracts and commissioning processes will be strengthened further during 2015/2016 as the Council’s commissioning guidance is adopted more widely.

Controls: Fraud, Corruption and Whistleblowing

Internal Audit Counter Fraud Management Update

Report of the Audit Engagement Officer provided members with an update on the Council’s counter fraud activities and initiatives. She stated that the active participation in counter fraud remained a positive and integral part of the Council’s commitment to the detection and prevention of fraud.

Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy

Report of the Audit Service Manager which informed members that the Counter Fraud, Bribery and Anti-Corruption Strategy had been reviewed and refreshed in line with best

practice and aligned to the CIPFA Code of Practice.

Annual Whistleblowing report

Report of the Head of Human Resources on the number of cases raised about Council employees over the last year through the whistleblowing process.

Fraud and Special Investigation Updates (Exempted by Categories 2, 3 and 7)

Exempt reports of the Audit Engagement Officer on an update on the current fraud and special investigations undertaken are provided to Members.

Benefit fraud Investigations - performance monitoring reports

Report of the Revenues and Benefits Service Manager set out details of the investigative work undertaken into fraudulent claims for Housing Benefit, Council Tax Benefit and other Welfare Benefits jointly with the Department for Work and Pensions for the financial year 2014/2015 to the 10 February 2015.

The Audit Committee agreed that there were effective arrangements for the prevention and detection of fraud and corruption, and for enabling whistleblowing (confidential reporting).

Controls: Value for Money

External Audit: Shropshire Council Audit Findings 2013/2014

Report of the Engagement Lead (Grant Thornton) on key matters arising from the audit of Shropshire Council's financial statements for the year ending 31 March 2014 which was substantially complete. The report highlighted the key messages arising from the audit of the Council's financial statements and the results of work undertaken to assess the Council's arrangements to secure value for money and use of resources. The External Auditor reported on his intention to issue an unqualified value for money conclusion which would confirm that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

External Audit: Annual Audit Letter 2013/2014

Report of the Engagement Lead (Grant Thornton) which set out the findings from the 2012/2013 audit of the assessment of the Council's arrangements to achieve value for money in its use of resources.

External Audit: Plan 2014/15

Report of the Engagement Lead (Grant Thornton) setting out the work that Grant Thornton would be undertaking to discharge their responsibilities to provide a conclusion on the Council's arrangements for achieving Value for Money (VFM) and to consider the Council's Annual Governance statement.

The Audit Committee agreed that there were effective arrangements to ensure Value for Money.

Financial reporting

Audited Annual Statement of Accounts 2013/2014

Report of the Section 151 Officer which set out the final audited outturn position for the

financial year 2013/14 which would be confirmed by Council on the 25th September 2014. The Head of Finance, Governance and Assurance informed members that there had been no material changes to the main accounting statement since the version considered by the Committee in June.

Revenue outturn report 2014/2015

Report from the Section 151 Officer providing details of the revenue outturn position for the Council.

Capital outturn report 2014/2015

Report from the Section 151 Officer informing members of the full year capital expenditure and financing of the Council's capital programme.

Review of the Annual Statement of Accounts 2014/2015

Report of the Section 151 Officer on the draft Annual Statement of Accounts.

External Audit: Audit Committee update for Shropshire Council

Report of the Engagement Lead (Grant Thornton) which highlighted the progress made on work undertaken during the year and summarised the emerging national issues and developments of relevance to the Council. He indicated that no major issues had been identified.

External Audit: Certification summary reports 2014/15 including housing benefits

Report of the Engagement Lead (Grant Thornton) detailing the Certification Work Report 2013/14 relating to grants, subsidy and the return of financial information. It was noted that Grant Thornton had certified two claims for the financial year 2013/14 which related to £72 million. It was reported that the fees for the certification of housing benefit subsidy claims had been reduced by 12% to reflect the removal of council tax benefit.

External Audit: Pension Fund audit plan 2014/2015

Report of the Engagement Lead (Grant Thornton) which summarises for members the 2014/2015 planned audit of the Pension Fund financial statements.

External Audit: Certification plan 2014/2015

Report of the Engagement Lead (Grant Thornton) which summarised the overall assessment of the outcome of the grant certification work undertaken during the last financial year.

External Audit: Shropshire Council Audit Findings 2013/2014

Report of the Engagement Lead (Grant Thornton) on key matters arising from the audit of Shropshire Council's financial statements for the year ending 31 March 2014 which was substantially complete. The report highlighted the key messages arising from the audit of the Council's financial statements and the results of work undertaken to assess the Council's arrangements to secure value for money and use of resources. The External Auditor confirmed that he proposed to issue an unqualified opinion on the financial statements.

External Audit: Shropshire County Pension Fund Audit Findings Report 2013/2014

Report of the Engagement Lead (Grant Thornton) summarised the findings for the year

ended 31 March 2014 on the audit of the Pension Fund financial statements. He informed the meeting that this report would be considered by the Pensions Committee and had been brought to the Audit Committee as an information item.

External Audit: Annual Audit Letter 2013/2014

Report of the Engagement Lead (Grant Thornton) which set out the findings from the 2012/2013 audit of the Council's financial statements.

External Audit: Plan 2014/15

Report of the Engagement Lead (Grant Thornton) setting out the work that Grant Thornton would be undertaking to discharge their responsibilities in relation to the Council's financial statements.

Treasury Management

Annual Treasury report 2013/2014

Report of the Section 151 Officer providing information on treasury activities for Shropshire Council for 2013/2014. He indicated that the internal Treasury Team had outperformed their investment benchmark by 0.3% in 2013/2014 and performance for the last three years was 0.5% per annum above benchmark.

Treasury Strategy 2014/2015 Mid-Year Report

Report of the Section 151 Officer on a mid-term review of the Treasury Strategy which had been prepared in compliance with CIPFA's Code of Practice on Treasury Management. He highlighted that the internal Treasury Team achieved a return of 0.57% on the Council's cash balances, outperforming the benchmark by 0.27%.

Treasury Strategy 2015/16

Report of the Section 151 Officer which proposed the Treasury Strategy for 2015/2016 and the recommended Prudential Indicators for 2015/16 to 2017/18

The Audit Committee agreed that Financial Statements reflected the Council's true position, were complete including all transactions, and were prepared in accordance with International Financial Reporting Standards.

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The Audit Plan for Shropshire County Pension Fund

Year ended 31 March 2015

25 February 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. New governance arrangements

- The new governance regulations have introduced further changes for LGPS which take effect from April 2015. These introduce a Local Pension Board for each fund. These boards will work with the administering authority to help ensure compliance and effective governance and administration of the scheme. In addition the regulations also establish a National Scheme Advisory Board and a funding cap.
- There is a potential for overlap for many schemes between existing Pension Committees and the new Local Pension Boards, with a real challenge for administering authorities to meet the statutory requirements, but in a way which delivers visible improvements in the governance of the funds.

2. Pensions Regulator

- The Public Services Pension Act also provides for the extension of the work of The Pensions Regulator to the LGPS from 1 April 2015.
- The Fund will need to monitor compliance with requirements set by the regulator.

3. Future structural reform

- In May 2014 DCLG consulted on the opportunities for collaboration, cost savings and efficiencies in the management of LGPS funds. While the outcome of this is still awaited there is clearly a growing momentum for structural change.
- In the meantime the growing use of shared arrangements is delivering real benefits to funds through reduced costs, increasing access to relevant expertise and improved quality.

4. Local government outsourcing

- As many councils look to outsourcing and the set up of external organisations as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.

Our response

- We will continue our on-going dialogue with officers around their governance arrangements.
- We will share good practice that is emerging with officers.

- We will share our experience of working with The Pensions Regulator.
- We will discuss with officers any changes that have been made to existing practices for the fund to demonstrate compliance.

- We will share good practice in reducing administration costs through collaboration or other initiatives.
- We will discuss any proposals for structural change and their impact on the Pension Fund with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the Pension Fund.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. LGPS 2014

- During 2013/14 funds have implemented LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015, however the Pension Fund needs to ensure on-going compliance with the Code .

3. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets.
- We are aware that your fund has had to use some cash balances to cover some elements of benefit payments, but have not had to disinvest from assets held.

4. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

Our response

- We will consider changes made to the pensions administration control environment in response to LGPS data requirements, and
- we will review and test controls over contributions and benefits.

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will discuss with officers any planned changes to the financial statements in response to this guidance.

Our audit approach

Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

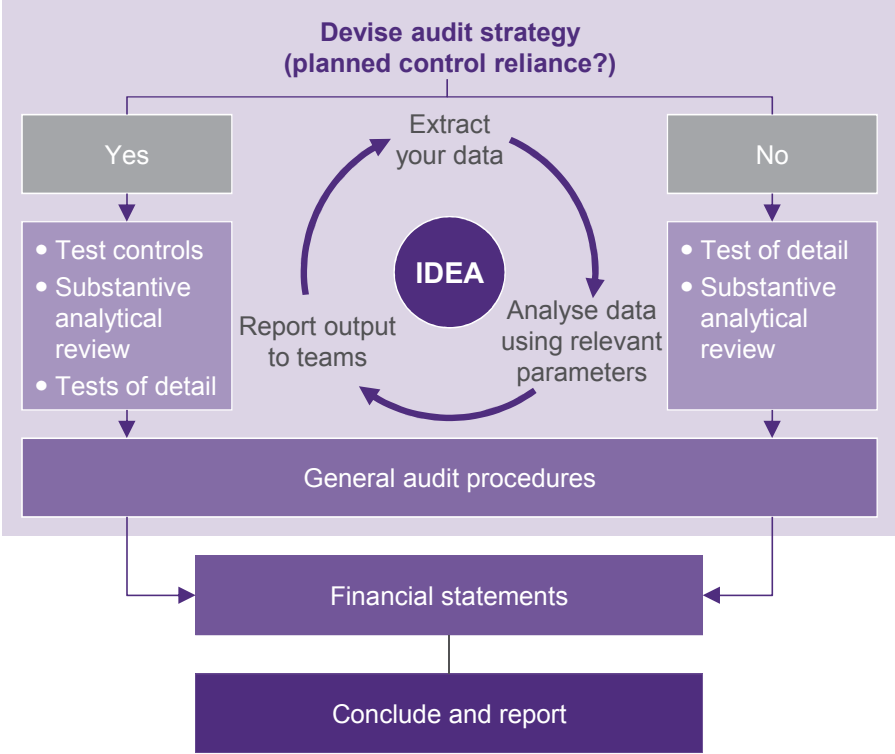
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- * Understanding the environment and the entity
- * Understanding the business
- * Understanding management's focus
- * Evaluating the year's results

Inherent risks
Significant risks
Other risks
Material balances

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material^a respects with the CIPFA Code of Practice framework using our global methodology and audit software

Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



Creates and tailors audit programs

Stores audit evidence

Documents processes and controls



Significant risks identified

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

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Shropshire County Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Shropshire Council who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Audit work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Significant risks identified cont'd

Significant risk	Description	Substantive audit procedures
<p>Level 3 Investments – Valuation is incorrect</p> <p><i>Level 3 investment are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.</i></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 384</p>	<p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have discussed with officers investment strategy for the fund which has indicated no change is expected in the overall split between level 1,2 and 3 investments held at the year-end. <p>Further work planned:</p> <ul style="list-style-type: none"> We will perform walkthrough tests of key controls identified in for this system. For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances The existence of investments will be confirmed directly with independent custodians or by agreement to relevant documentation. To review the nature and basis of estimated values.

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Investment Income Page 385	Investment activity not valid. Investment income not accurate. (Accuracy)	Audit work planned: <ul style="list-style-type: none"> We will perform walkthrough tests of key controls identified for this cycle. We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances. The existence of investments will be confirmed directly with independent custodians or by agreement to relevant documentation.
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	Audit work planned: <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances

Other risks identified continued

Other risks	Description	Audit Approach
<p>Investment values – Level 2 investments</p> <p><i>Level 2 investments are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.</i></p>	<p>Valuation is incorrect. (Valuation net)</p>	<p>Audit work planned:</p> <ul style="list-style-type: none"> We will update our understanding of the cycle with relevant personnel from the team during the interim audit. We will perform walkthrough tests of key controls identified for this cycle. We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances The existence of investments will be confirmed directly with independent custodians or by agreement to relevant documentation.
<p>Contributions</p>	<p>Recorded contributions not correct (Occurrence)</p>	<p>Audit work planned:</p> <ul style="list-style-type: none"> We will update our understanding of the cycle with relevant personnel from the team during the interim audit. We will perform walkthrough tests of the controls identified in this cycle. We will discussed with internal audit their work completed in this area and seek to minimise the level of testing we undertake in this area. We will sample test controls testing over the contributions made to the fund. Test a sample of contributions to source data to gain assurance over their accuracy and occurrence. Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.
<p>Benefits payable</p>	<p>Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)</p>	<p>Audit work planned:</p> <ul style="list-style-type: none"> We will update our understanding of the cycle with relevant personnel from the team during the interim audit. We will perform walkthrough tests of key controls identified for this cycle. Controls testing over, completeness, accuracy and occurrence of benefit payments, Test a sample of individual pensions in payment by reference to member files, We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.

Other risks identified continued

Other risks	Description	Audit Approach
Member Data	Member data not correct. (Rights and Obligations)	<p>Audit work planned:</p> <ul style="list-style-type: none"> • We will update our understanding of this cycle with relevant personnel from the team during the interim audit. • We will perform walkthrough tests of the controls identified in the cycle. • We will perform controls testing over new enrolments to the pension scheme. • Controls testing over annual/monthly reconciliations and verifications with individual members • Sample testing of changes to member data made during the year to source documentation

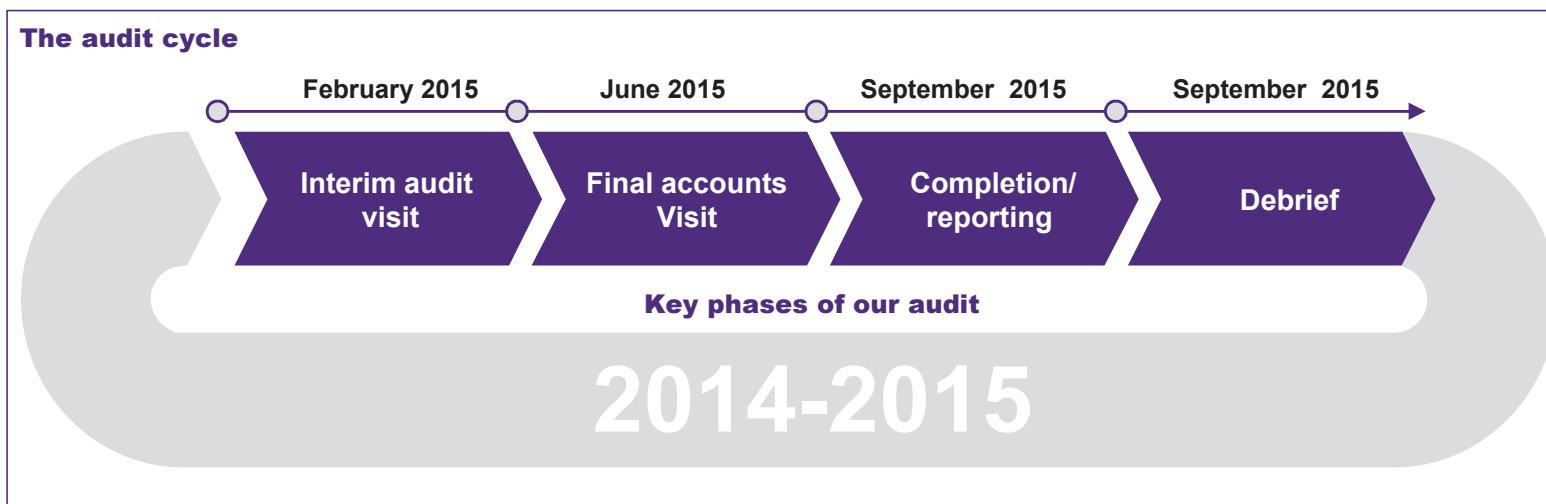
Plan of interim audit work

	Work planned
Internal audit	We will carry out a high level review of internal audit's overall arrangements.
Walkthrough testing	We will carry out a walkthrough test of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.
Entity level controls	<p>We will obtain an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices
Review of information technology controls	We will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.
Journal entry controls	We will review the Pension Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.

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The plan for our interim audit work is noted above, the impact of our findings may impact on the accounts audit approach and we will issue an update to this plan, if required, following our interim work.

Key dates



Date	Activity
January 2015	Planning
February 2015	Interim site visit
March 2015	Presentation of audit plan to Pensions Fund Committee
June/July 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with appropriate officers
September 2015	Report audit findings to those charged with governance being the Pensions Fund Committee
By 29 September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Pension Fund Scale Fee	23,427
Proposed fee variation – IAS 19 Assurances	1,979
Total fees (excluding VAT)	25,406

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations

Proposed fee variation – IAS 19 Assurances

In line with Audit Commission standing guidance we are required to provide assurance to admitted body auditors over the reliability of the information provided by the Pension Fund to the actuary for the purposes of them making their IAS 19 estimates. As in the previous year this work is not currently included in the scale fee and therefore a fee variation is proposed to cover the cost of the work required by the admitted bodies.

Fees for other services

Service	Fees £
None	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

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. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our 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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
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		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

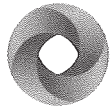


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Our ref: JR/EJM/S09000039/Fee_Letter_15-16

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27 April 2015

Dear Clive

Planned audit fee for 2015/16

Before it closed on 31 March 2015, the Audit Commission was asked to set the scale fees for audits for 2015/16. The Commission published its work programme and scales of fees for 2015/16 at the end of March 2015. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council's scale fee for 2015/16 has been set by the Audit Commission at £133,845, which compares to the audit fee of £177,390 for 2014/15. The reduction in fees has been enabled by the procurement exercises run by the Commission across both the Local Government and Health sectors.

After the Commission's closure, the 2015/16 work programme and fees will be accessible from the archived Audit Commission website from the National Archives http://webarchive.nationalarchives.gov.uk/*/http://www.audit-commission.gov.uk/ and on the Public Sector Audit Appointments PSAA website psaa.co.uk

The audit planning process for 2015/16, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Chartered Accountants

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Value for Money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and provide feedback in our Audit Findings Report.

Certification of grant claims and returns

The Council's indicative grant certification fee has been set by the Audit Commission at £13,945.

Pension Fund audit

The Audit Commission has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The scale fee for the audit of the pension fund is £23,427. Our work on the pension fund will be undertaken in July 2016 by our specialist pension fund audit team, led by John Gregory.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2015	33,462
December 2015	33,461
March 2016	33,461
June 2016	33,461
Grant Certification	
December 2016	13,945
Total	147,790
<hr/>	
Pension Fund audit	
March 2016	23,427

Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2015 to March 2016. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in September 2016 and work on the whole of government accounts return in September 2016.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2015- March 2016	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	July to Sept 2016	Audit Findings Report (reporting to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	Jan to Sept 2016	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	September 2016	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2016	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	March to December 2016	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2015/16 are:

	Name	Phone Number	E-mail
Engagement Lead	Jon Roberts	0121 232 5383	jon.roberts@uk.gt.com
Engagement Manager	Emily Mayne	07880 456112	emily.j.mayne@uk.gt.com
Pensions Audit Manager	Ashley Wilson	0121 232 5430	ashley.l.wilson@uk.gt.com
In Charge Auditor	Kieran Armitage	0121 2325422	kieran.armitage@uk.gt.com


Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Sarah Howard our Public Sector Assurance regional lead partner sarah.howard@uk.gt.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jon Roberts'. The signature is stylized with a large, sweeping initial 'J' and a distinct 'R'.

Jon Roberts
Partner
For Grant Thornton UK LLP

cc James Walton, Head of Finance, Governance and Assurance, Shropshire Council

Audit Committee Update for Shropshire Council

Year ended 31 March 2015

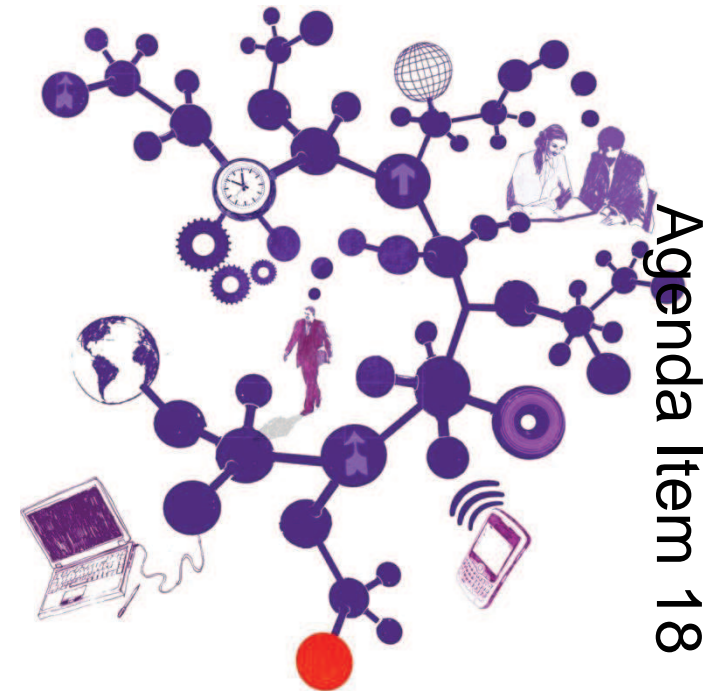
June 2015

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Agenda Item 18

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Progress to date

Work	Planned date	Complete?	Comments
<p>2013/14 Objection</p> <p>We received a formal objection to an element of expenditure within the 2013/14 financial statements relating to taxi licence fees. This did not impact on our ability to provide our opinion on the financial statements.</p>	November 2014 – March 2015	Yes	<p>We have provided a statement of reasons to the objector within the timescales set out by the Audit Commission. We are now in a position to formally close the audit and issues the certificate for 2013/14. This will happen in the coming weeks. We will also prepare the fee as a result of dealing with this objection.</p>
<p>2014/15 Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on Council's 2014/15 financial statements.</p>	February 2015	Yes	<p>We continue to assess the risks facing your Council and meet with Senior Officers to ensure that these risks are fully understood and our proposed audit work is appropriate to support our final opinion and VfM conclusion.</p> <p>If there are any revisions to the plan we will agree this with the Head of Finance, Governance and Assurance and report back to Audit Committee.</p>
<p>Interim accounts audit</p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	November 2014 – April 2015	Yes	<p>We have undertaken regular meetings with the finance team to streamline and improve the audit approach for 2014/15 and discuss technical issues early. This covered a range of topics covering particular technical areas for Shropshire and national issues arising in 2014/15.</p> <p>We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p> <p>Our approach for 2014/15 has been to undertake as much early testing as possible to reduce pressure on the finance and audit team over the summer months.</p>

Progress to date (continued)

Work	Planned date	Complete?	Comments
<p>2014/15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014/15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	June – September 2015	Not started	The onsite work is due to commence from 20 th July 2015 once we have received the draft set of financial statements.
<p>Value for Money (VfM) conclusion</p> <p>For 2014/15, auditors of Local Government bodies are required to give their statutory conclusion on arrangements to secure value for money based on the following two criteria specified by the Audit Commission:</p> <ul style="list-style-type: none"> • The organisation has proper arrangements in place for securing financial resilience. • The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. 	December 2014 – July 2015	In progress	<p>The scope of our work to inform the 2014/15 VfM conclusion is detailed within the Audit Plan.</p> <p>We have already started attending meetings with key Senior Officers to inform our overall understanding of the Council and capture evidence of how the Council is securing value for money in all areas of service delivery.</p> <p>There will also be a strong focus on financial resilience and how the Council is preparing itself for future years.</p>
<p>Grant work (PSAA regime)</p> <p>We plan to certify the following claim:</p> <ul style="list-style-type: none"> • Housing Benefits Claim 2014/15 (BEN01) 	June – November 2015	Not started	<p>We do not propose to prepare a Certification Plan on the basis that there is only one claim now under the PSAA regime and the fee is communicated via the annual fee letter.</p> <p>We will update you on any grant work undertaken outside of the PSAA regime and report all grant related fees within the Audit Findings Report in September.</p>

Progress to date (continued)

Work	Comments
Other areas of work The Council has not engaged us to complete any additional work at this time.	N/A
Engagement with the Council since the last Committee meeting Page 402	<ul style="list-style-type: none">• Discussions with the finance team to confirm arrangements for final accounts and other financial reporting issues.• Meeting with the Head of Finance, Governance and Assurance to update on audit and client facing matters.• Distribution to Senior Leaders and Members of "Spreading their wings: Building a successful local authority trading company" within which ip&e Ltd is a case study.• Agreement with the Council and ip&e Ltd to use ip&e Ltd to inform an article within Public Finance to promote our report.• Distribution to Senior Leaders and Members of "Easing the burden, our report on the impact of welfare reform on local government and social housing organisations"• Dialogue with officers involved in the Better Care Fund to ensure that initial VAT advice is provided to support discussions between the Council and the CCG.• Invitation for the Chief Executive to attend our Birmingham offices and benefit from the CEO Room.

Spreading their wings: Building a successful local authority trading company

Grant Thornton

Our report, 'spreading their wings' focuses on how to set up a local authority trading company and, importantly, how to make it successful. It is available at <http://www.grant-thornton.co.uk/Global/spreading-their-wings-LATC-report-2015.pdf>

The trend in using alternative models to protect and develop services has continued over the last year. As councils continue to confront financial pressure, many have considered how to reduce costs, generate income and improve efficiency by introducing commercial structures.

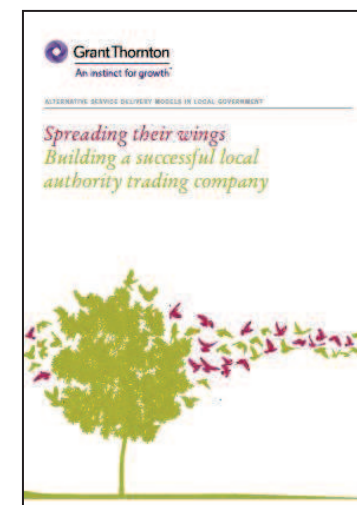
The introduction of LATCs has been a key part of this innovation and we predict that the number will grow in the next five years. While restricted initially to areas such as entertainment or airports – for example Birmingham's NEC and Manchester Airport – LATCs have grown into new areas such as highways, housing and education. More recently, LATCs dedicated to the delivery of social care services have emerged.

We recognise that the delivery of a successful company is not easy. In light of this, this report provides practical guidance on the steps that need to be followed in:

- deciding to set up a local authority trading company
- setting up a local authority trading company
- building a successful local authority trading company.

Grant Thornton has worked with many LATCs and continues to support growth in this area. We have based this report on market research, interviews with councils and LATCs, and our own experience of working with LATCs and councils. It is a practical guide drawing on our own experiences but also on the successful companies we have worked with.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Welfare Reform Review: Easing the burden

Grant Thornton

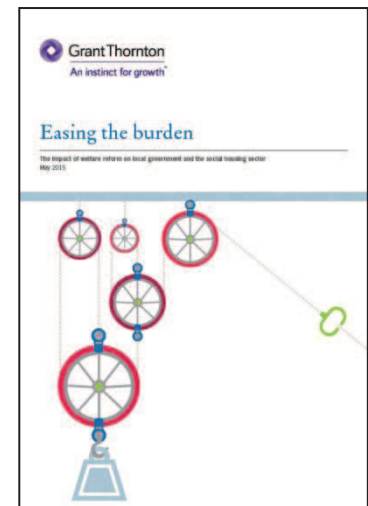
Our second welfare reform report, 'Easing the burden' provides insight into the impact of welfare reform on English local authority and social housing organisations over the past two years. It is available at <http://www.grant-thornton.co.uk/Global/Easing-the-burden-welfare-reform-report.pdf>

It focuses on the governance and management arrangements being put in place across the two sectors to deliver reform, the early signs of how successful the reforms have been and the upcoming issues and risks on the reform agenda in the wider context of social impact.

The key messages include:

- The cumulative effect of various welfare reforms is putting a significant financial strain on those people needing welfare support
- The majority of local authorities and housing associations surveyed have seen a rise in average council tax and rent arrears since 2012/13, which they attributed at least in part to welfare reform
 - There has been limited movement to smaller properties as a result of the spare room subsidy and benefit cap reforms,
 - Local authorities are becoming reliant on Discretionary Housing Payments (DHP) to plug the gap for those unable to pay.
 - Any reduction in DHP funding from central government is therefore likely to result in further increases to rent arrears and homelessness in the next two years, unless mitigated by other means
 - The withdrawal of ring-fenced hardship funding (formerly the Social Fund) will result in a reduction of provision, as the majority of local authorities told us that they are not in a position to fund this from their own revenue
 - Reductions in DHP, hardship funding and general funding reductions inhibit the ability of local authorities and housing associations to pursue early intervention policies, preventing people falling into long-term benefit dependency. This has cost implications for the medium- to long-term.
 - The cost of administering housing benefit is rising as a result of welfare reform. Around half of local authorities and housing associations surveyed said housing benefit is becoming significantly more costly to administer, partly due to the increased complexity of cases.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



The Queen's Speech 2015 – what it means for local government

Local government issues

The Queen's Speech was presented to Parliament on 27th May 2015 and set out the new government's policies and proposed legislative programme for the next parliamentary session. There are a range of proposals impacting on local government, including:

- A Cities and Local Government Devolution Bill aimed at boosting growth and increasing local government productivity and efficiency. It will provide the legislative framework to deliver the Greater Manchester deal and other future deals. The provisions of the bill will be applied to specified combined authorities and their areas, led by an elected mayor.
- A Housing bill extending right to buy legislation to housing associations and requiring local authorities to dispose of high-value vacant council houses. This bill will also introduce measures to simplify and speed up the neighbourhood planning system other changes to housing and planning legislation to support housing growth.
- An Education and Adoption bill that aims to speed up intervention in failing schools and requires inadequate, and coasting schools to become academies. It is also planned to introduce regional adoption agencies, working across local authority boundaries to reduce delays in the adoption system.

Challenge question

Have members:

- been briefed by the Head of Finance, Governance and Assurance on the new government's proposed legislative programme and its likely impact on the Council?

Local Government New Burdens

Local government issues

The National Audit Office (NAO) published its review of new burdens on local government on 5th June 2015.

In 2011, the government reaffirmed its commitment to the New Burdens Doctrine (the Doctrine). The Doctrine set out how the government would ensure that new requirements that increased local authorities' spending or reduced their income did not lead to excessive council tax increases. The Doctrine commits the government to assess and fund extra costs for local authorities from introducing new powers, duties and other government-initiated changes.

The NAO report considers the new burdens regime, how it is managed and overseen and the DCLG's arrangements for new burdens assessments. It concludes that:

- government departments have embraced the new burdens Doctrine and the DCLG's guidance has promoted consistent assessment and encouraged consultation with local government on the impact of new requirements;
- however, the government is not sufficiently open about which new burdens are assessed or the outcomes of assessments; and
- the DCLG has not promoted post implementation reviews to ensure funding is adequate.

The NAO also concludes that the DCLG needs to use intelligence from new burdens regime better, to improve its understanding of the pressures affecting local authorities' financial sustainability.

Challenge question

Have members been briefed by the Head of Finance, Governance and Assurance on the key findings of the NAO's review of new burdens on local government?

English devolution – local solutions for a successful nation

Local government issues

The Local Government Association's (LGA) white paper on devolution includes a warning to the new government that the principle of cuts without reform could stifle growth and development and challenge the sustainability of vital local services. The paper sets out:

- Why devolution matters
- The principles to sustain devolution
- A road map to follow to help deliver reform
- Proposals that will strengthen accountability and governance in the new system

It states that:

Local government has done more than any other part of the public sector over the course of the last parliament to make the public finances more sustainable and managed to do so while protecting front line services. All evidence suggests that this cannot continue over the next five years without more radical reform. Given the continuing need to reduce the national deficit, only a reinvigorated agenda for reform, underpinned by sustainable funding for local services, will deliver the ambition of the new Government for our communities and national economy.

Challenge question

Have members been briefed by your Chief Executive or Head of Finance, Governance and Assurance on the headline messages from the LGA's white paper on devolution?

Understanding your accounts – Member guidance

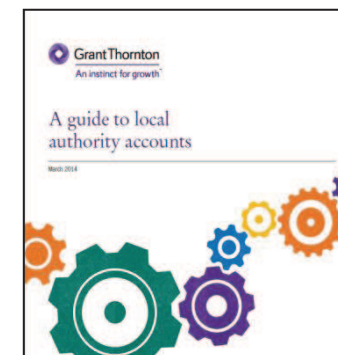
Accounting and audit issues

Local authority Audit Committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand.

In 2014 we prepared a guide for Members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help Members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position. Any new members to the Audit Committee may find this guide helpful.

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The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in a surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at the year end; and
- other statements and additional disclosures



We have copies of the Guide to Local Authority accounts for distribution to the Audit Committee.

2014/15 Accounts hot issues

Accounting and audit issues

As part of our audit of local authorities 2014/15 accounts we will be considering the following issues

Accounting for schools – in particular the judgements made on whether to include non current assets for voluntary aided and voluntary controlled schools on the Council's balance sheet

Provisions for business rates appeals – as a result of a change in rules relating to business rates appeals we do not expect to see provisions for unlodged appeals in 2014/15 accounts

Early payment of pension contributions – we expect authorities that are spreading the impact of pension deficit contributions to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund and the accounting judgements and treatment in the 2014/15 accounts should reflect the advice received

Inclusion of overtime in the calculation of holiday pay – authorities that are likely to be affected in a material way by the Employment Appeal Tribunal judgement on the extent to which overtime pay should be included in the calculation of holiday pay should include an appropriate provision in their 2014/15 accounts

Challenge question

Has your review of the Council's 2014/15 accounts included consideration of these hot issues?

Earlier closure and audit of accounts

Accounting and audit issues

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Challenge questions

- Has your Head of Finance, Governance and Assurance put in place a plan to address the earlier close date?



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By virtue of paragraph(s) 2, 3, 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

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