Shropshire Council

Date: Thursday, 22 February 2024

Time: 10.00 am

Venue: Wilfred Owen Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

Contact: Michelle Dulson, Committee Officer
Tel: 01743 257719
Email: michelle.dulson@shropshire.gov.uk

# AUDIT COMMITTEE

# TO FOLLOW REPORT (S)

**6 Second line assurance: Treasury Strategy 2024/25** (Pages 1 - 50)

The report of the Executive Director of Resources (Section 151 Officer) is attached.

Contact: James Walton (01743) 258915

**11 Third line of assurance: External Audit: Audit Findings Report 2022/23** (Pages 51 - 102)

The report of the Engagement Lead is attached.

Contact: Grant Patterson (0121) 232 5296

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| Committee and Date | Item |
| --- | --- |
| Cabinet<br>21st February 2024<br><br>Audit Committee<br>22nd February 2024<br><br>Council<br>29th February 2024 | <br><br><br><br><br>Public |

Healthy People

Healthy Economy

Healthy Environment

Healthy Organisation

# Treasury Strategy 2024/25

| | | | |
| --- | --- | --- | --- |
| **Responsible Officer:** | James Walton | | |
| email: | james.walton@shropshire.gov.uk | Tel: | 01743 258915 |
| **Cabinet Member** (Portfolio Holder): | Cllr Gwilym Butler, Finance, Corporate Resources and Communities | | |

## 1. Synopsis

The report proposes the Treasury Strategy for 2024/25. It sets out the arrangements for how the council will appropriately manage its arrangements for banking, cash flow management, investments, and borrowing, supporting the delivery of the MTFS and The Shropshire Plan.

## 2. Executive Summary

2.1. Treasury management refers to work undertaken ‘in the background’. It is the way the authority manages cash flow, banking, investments and borrowings. Effective treasury management is an essential foundation for the services the Council provides.

2.2. CIPFA has defined treasury management activities as ‘the management of the organisation’s investments and cash flows - banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.’ The amounts in these different areas of activity fluctuate, but, at the time of preparing the report, the council had

- gross cashflows in and out registering in the hundreds of millions of pounds each year
- future planned capital investments (capital financing requirement or 'CFR'), funded from a variety of sources, approaching £0.5bn
- debt (external borrowings) just under £0.3bn (this is all fixed rate; no borrowings held with variable rates). The majority of this (£0.24bn) is government loans (Public Works Loan Board, 'PWLB'). The profile of debt maturity is spread across future years (PWLB loans mature between 2029/30 and 2056/57). Provision to meet the finance cost of this debt and to repay the principal is included in the annual budget process.
- Investments (of cash held for various purposes, which can be safely invested for a period based on projected cash flow requirements) of £39.9m as at 31 December 2023.

2.3. This is a complex and significant area of the Council's financial operations and is therefore delivered within an appropriately robust framework of legislative and best practice safeguards.

2.4. To enable an efficient approach to delivery of treasury management functions across partner organisations, the Council also provides this function for other organisations as below. (NB – this report relates specifically to the Treasury Management Strategy for the Council.)

- West Mercia Energy (WME)
- Shropshire Towns and Rural Housing (STARH)
- Shropshire and Wrekin Fire Authority
- The Marches Local Enterprise Partnership (LEP)
- The Shropshire County Pension Fund (SCPF)

2.5. Given the scale of these activities, it is essential that best practice is applied, and local activity is amended as best practice evolves. The Council achieves this in two ways – by retaining Link Group as specialist treasury management advisors, and by adopting recommended best practice from sector leaders such as CIPFA.

2.6. In December 2021, CIPFA published the revised Treasury Management Code and Prudential Code. As noted last year, formal adoption is included for the 2024/25 financial year. This Treasury Management Strategy has also been prepared in compliance with CIPFA's Code of Practice on Treasury Management 2017 and covers the following:-

- A high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how the associated risk is managed
- The implications for future financial sustainability

2.7. Key points to note in the strategy are:-

- Borrowing is driven by the requirements of the approved Capital Programme.
- Currently the approved borrowing requirement identified within the approved Capital Programme 2024/25 to 2026/27 is prudential borrowing of £68.7m. In addition to this there is an anticipated prudential borrowing

requirement for future prioritised schemes in the Capital Strategy 2024/25 to 2029/30 of £136.8m.
- Investment limits are also set out within the strategy, to ensure that counterparties are credit worthy and that investments are undertaken in line with internal funds requirements.

2.8. Outside the approved Capital Programme there are a number of further capital investment schemes which are being prepared but have not yet been approved to be included in the capital programme. Once these decisions are made (either to accept and progress, or to reject), the funding including the borrowing requirement will also be revised.

2.9. The Council's lending is restricted to highly credit rated Banks, Building Societies, Money Market Funds and Part Nationalised Institutions which meet Link Asset Services creditworthiness policy, as well as other Local Authorities and the UK Government (for example, lending to the Debt Management Office, 'DMO').

2.10. The Finance Team will continue to look for opportunities to make savings by actively managing the cash and debt portfolio in accordance with the Treasury Strategy. Savings may be secured by increasing the interest earnt through investment of cash balances, or by reducing the cost of external borrowing (for example, by paying back higher interest loans and replacing them with lower interest loans – 'rescheduling').

## 3. Recommendations

3.1. This treasury strategy is required to be received at three committee meetings;
- Cabinet receive it and recommend its adoption to Council from the perspective of this setting out the policy Cabinet wish to adopt;
- Audit Committee also receive the report as part of their consideration of the probity and regularity of the council's financial affairs, and
- Full Council receive the strategy for its formal approval and adoption as a reserved decision.

Specific recommendations for each meeting are set out below.

**<u>Cabinet</u>**

3.2. That Cabinet recommends that Council:-

a. Approve, with any comments, the Treasury Strategy for 2024/25
b. Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
c. Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the DLUHC Guidance on Local Government Investments.
d. Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.
e. Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
f. Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.

g. Authorise the Section 151 Officer to progress and finalise the restatement and amendment of Cornovii Development Ltd loan agreements.

**Audit Committee**

3.3. That the Audit Committee

h. Consider and endorse, with appropriate comment, the Treasury Strategy 2024/25.

**Council**

3.4. That Full Council

i. Approve, with any comments, the Treasury Strategy for 2024/25, set out in appendix 1 (parts 1-3).
j. Approve, with any comments, the Investment Strategy, set out in Appendix 1 (part 4) in accordance with the DLUHC Guidance on Local Government Investments.
k. Approve, with any comments, the Prudential Indicators, set out in Appendix 1 (part 5), in accordance with the Local Government Act 2003.
l. Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 1 (part 6).
m. Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
n. Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.
o. Authorise the Section 151 Officer to progress and finalise the restatement and amendment of Cornovii Development Ltd loan agreements.

# Report

## 4. Risk Assessment and Opportunities Appraisal

4.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

4.2. There are no direct environmental, equalities or climate change consequences arising from this report.

4.3. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.

4.4. The Council's Audit Committee is the committee responsible for ensuring effective consideration of the Council's Treasury Management Strategy and policies.

*4.5.* Risk table:

| *Risk* | *Mitigation* |
|---|---|
| Security of funds | The Council maintains an Annual Investment Strategy which ensures that minimum acceptable credit criteria is applied for all investments to ensure that only highly creditworthy counterparties are used which enables diversification across all investments.<br><br>The Council uses a treasury advisor, Link Asset Services to provide a creditworthiness service of all potential investment counterparties, which is continuously monitored and updated as needed. |
| Managing liquidity | The Council undertakes cash flow monitoring which highlights anticipated cash transactions for the upcoming 18 months. All departments are requested to provide details of large value income and expenditure transactions that may impact on the authority's cash flow position. This is tracked on a daily basis and continuously updated to ensure that cash is held appropriately liquid should there be a need to use the funds. |
| Achievement of investment benchmark, particularly in months of February and March. | Investments undertaken by the Finance team are benchmarked against the 3 Month Sterling Overnight Index Average (SONIA). The key factors in tracking performance of investments, is the cash balance available to invest and the return that is achieved on investments made. When interest rates are rising in the economy, it may be that previous investments that were fixed have now become less favourable, and so there is a higher risk that the benchmark may not be achieved.<br>The availability of cash for investing has also become a key factor, especially in a period where reserves and hence cash balances have reduced. Also during the months of February and March the Council does not collect Council Tax and so cash balances reduce during these months in particular. In order to mange this period, cash is held in call accounts or highly liquid investments rather than being placed into longer term fixed interest investments. The main priority for the Council is always to maintain liquidity and the security of funds over chasing investment returns. |

## 5. Financial Implications

5.1. The financial implications arising from the Treasury Strategy are detailed in this report. The Council makes assumptions about the levels of borrowing and investment income over the financial year to facilitate financial planning.

5.2. Reduced borrowing either as a result of capital receipt generation or due delays in delivery of the capital programme will have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by

Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.

5.3. As at 31 December 2023 the Council held £39.9 million in investments and borrowing of £286 million at fixed interest rates.

## 6. Climate Change Appraisal

6.1. The Council's Financial Strategy includes proposals to deliver a reduced carbon footprint for the Council therefore the Finance Team is working with the Council in order to achieve this. There are no direct climate change impacts arising from this report. Shropshire Council's investment portfolio has no level 1, 2 or 3 emissions. It comprises of straightforward cash deposits with financial institutions and other Local Authorities.

6.2. The Council is actively working with Link Group to secure approved investment counterparties who prioritise sustainable investments. Where opportunities arise and these counterparties meet necessary security, liquidity and yield requirements, the council will then also be able to invest in activities specifically focused on sustainability and referenced to United Nations Sustainable Development Goals and wider Economic and Social Responsibility ('ESR') objectives.

## 7. Loans to Cornovii Developments Ltd (CDL)

7.1. Cornovii Development Ltd (CDL) and Shropshire Council have agreed to renegotiate the existing finance and borrowing arrangements for the company, subject to the appropriate approvals. Currently CDL have loan facilities of £14m and £35m from Shropshire Council for investment in new housing within Shropshire. To ensure CDL have the capacity to deliver a number of key developments which have been recently identified, CDL and Shropshire Council are proposing to collapse the two facilities in to a single £49m funding arrangement.

7.2. Within the CDL Business Plan for 2023, the company are now looking to develop a Private Rented Sector (PRS) scheme and the Business Plan was approved by the Housing Supervisory Board on 16th March 2023. As part of the plans to finance the PRS scheme, CDL are looking to use £7m of the £49m local facility specifically for the PRS scheme. Therefore the funding agreements will need to be revised further once CDL are in a position to progress with the PRS scheme.

7.3. Members approve the Executive Director of Resources (Section 151 Officer) to progress and finalise the restatement and amendments of the loan agreement.

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

Treasury Strategy 2023/24

Treasury Strategy 2023/24 - Mid Year Review

Finance Strategy 2023/24 - 2027/28

| | |
|---|---|
| **Local Member:** | All |
| **Appendices** | |
| Appendix 1 – Treasury Strategy | |

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# TREASURY MANAGEMENT STRATEGY 2024/25

# Introduction

The Council depends upon a strong foundation of proper management of its financial affairs in order to provide needed and valued services to the our community and to pursue the objectives set out in the Shropshire Plan.

This Treasury Management strategy sets out how we will proactively manage our banking and cash arrangements (including borrowing and investment activity) through 2024/25 in order to ensure that funding is available to the council when it is required, but also that the cost of managing this is kept as low as possible.

This strategy is fully aligned to the updated Medium Term Financial Strategy, which articulates how the Shropshire Plan objectives will be delivered in financial terms.

**Gwilym Butler**

Cabinet Member Finance, Corporate Resources and Communities

**James Walton**

Executive Director of Resources

Shropshire Council

# 1. Overview

## 1. The objectives and contents of the Treasury Management Strategy

The Council operates a balanced budget. Amongst other things, this means that cash received during the year is used to fund its cash expenditure – our cashflow. Primarily, council tax and business rates received from the local area, and grants received from government, are then used to pay for council activity in delivering services. Treasury Management operations ensure this cashflow is properly planned and managed.

The Council defines its treasury management activities as “the management of the authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with the activities, and the pursuit of optimum performance consistent with those risks”.

Cash flow management involves forecasting in- and out-flows of cash and ensuring that funds are available to meet expenditure needs. Any temporarily surplus monies can be invested in low-risk counterparties, sometimes providing a return on investment. In doing so, we prioritise

- Security first (that is, the investment will be repaid), then
- Liquidity (that is, we can afford to lose access to the sum invested for the period of the investment, without negatively impacting on wider council operations), and lastly
- Yield (securing a beneficial return on investments made).

Treasury Management also ensures that funds are available to support the Council’s capital investment plans, whether using government grants, developer contributions, or external borrowing. These plans forecast the borrowing requirements of the Council - essentially, longer-term cash flow planning.

Whilst any commercial initiatives or loans to third parties will be informed by the treasury strategy and appropriate advice, these activities are generally classed as non-treasury activities, and are separated from the day-to-day treasury management activities.

This Treasury Management Strategy includes the following sections
1. Overview of the strategy
2. Economic update
3. Annual investment strategy
4. Prudential and treasury indicators
5. Minimum Revenue Provision statement
6. Specified and non-specified investments

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed.

The Council will adopt the following reporting arrangements in accordance with the requirements of the Code:-

| Area of Responsibility | Council/Committee/Officer | Frequency |
|---|---|---|
| Treasury Management Policy Statement | Full Council/Cabinet | As required |
| Treasury Strategy/Annual Investment Strategy/MRP Policy | Full Council/Cabinet | Annually before the start of the financial year |
| Capital Strategy | Full Council/Cabinet | Annually before the start of the financial year |
| Treasury Strategy/Annual Investment Strategy/MRP Policy – mid year report | Full Council/Cabinet | Mid-year |
| Treasury Strategy/Annual Investment Strategy/MRP Policy – updates of revisions at other times | Full Council/Cabinet | As required |
| Annual Treasury Report | Full Council/Cabinet | Annually by 30 September after the end of the financial year |
| Quarterly Treasury Management Update Reports | Executive Directors/Cabinet | Quarterly |
| Treasury management Monitoring Reports | Reports prepared by Treasury Officer within the Finance Team | Monthly |
| Treasury Management Practices/Investment Management Practices | Section 151 Officer | As required |
| Scrutiny of Treasury Strategy | Audit Committee | Annually before the start of the financial year |
| Scrutiny of the Treasury Management Performance | Audit Committee | Half yearly |

Compliance with best practice

Best practice guidance is regularly reviewed and updated as necessary. This strategy has been prepared in accordance with CIPFA's Code of Practice on Treasury Management, and is approved annually by Full Council. In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued Prudential and Treasury Management Codes.

The codes have clarified CIPFA's position on the role of the treasury management team and that there is a clear separation between treasury and non-treasury investments. Accordingly, periodic reporting by the treasury management team to members will focus solely on treasury investments. If non treasury investments are considered, a separate report will be presented for approval and any changes required to Prudential indicators incorporated within an updated Treasury Strategy if necessary.

The Local Government Act 2003 and supporting Regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable. This report incorporates the indicators to which regard should be given when determining the Council's Treasury Management Strategy for the next financial year.

As the Council is responsible for housing, Prudential Indicators relating to Capital Expenditure, financing costs and the Capital Financing Requirement will be split between the Housing Revenue Account (HRA) and the General Fund.

Annual investment strategy

The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This is attached in appendix 2 and includes a list of additional responsibilities for the Section 151 Officer role following the issue of the Treasury Management Code of Practice and Prudential Code.

The proposed Strategy for 2024/25 in respect of the following aspects of the treasury management function is based upon the Section 151 Officer's view on interest rates, supplemented with leading market forecasts provided by the Council's Treasury Advisor, Link Asset Services.

Relationship of the Treasury Management Strategy to the Capital strategy

All local authorities are required to prepare a Capital Strategy which is intended to provide the following: -
- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how associated risk is managed
- The implications for future financial sustainability

The aim of the Capital Strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy is separate from the Treasury Management Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy objectives realised in investments in local capital assets. The capital strategy sets out:
- The corporate governance arrangements for capital investments
- Any service objectives relating to the investments
- The expected income, costs and resulting contribution
- The debt related to the activity and the associated interest costs
- The payback period (implementing the MRP policy contained in the treasury management strategy)
- For non-loan type investments, the cost against the current market value
- The risks associated with each activity

Shropshire Council

# 2. Economic Context

## 2. Economic Update

### 2.1 Overview

Treasury management needs to be undertaken with a clear understanding of the economic context. Factors such as the bank rate and inflation rates have a clear impact on likely interest charged on future borrowing and interest earned on potential investments.

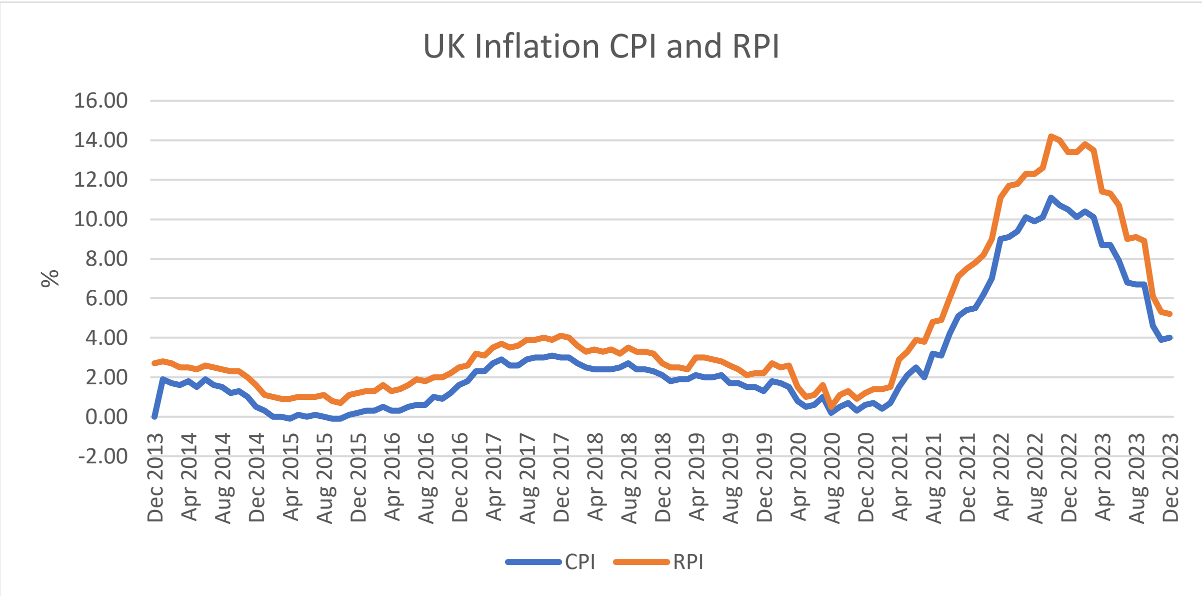
The inflation outlook indicates a degree of increasing positivity – the outlook is for rates to fall across the next 12-18 months. This is positive because although inflation pressures increase the cost of council services delivery, those costs are not expected to continue rising in the medium term.

UK Government finances provide the framework in which HM Treasury will frame future public spending decisions, including funding for councils. In the short term, this looks to be positive, but the extent of borrowing indicates that the government is likely to seek to recover that borrowing position within the medium term – which may lead to reductions in planned spending and so reductions in grant allocations (or less real-terms growth than would otherwise be the case).

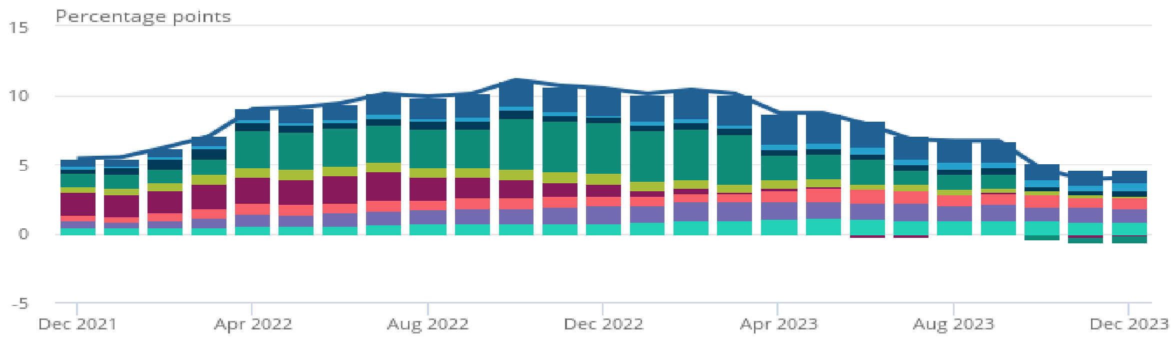
Bank rates are a key driver of the cost of borrowing. The Bank of England held bank rates at 5.25% for the second time in a row, which would suggest that rates have now peaked. It is anticipated that rate will reduce in late 2024, and then continue to reduce to around 3% by the end of 2025. This is important to consider by the council when they need to secure external borrowing – and advice will be sought in that event to ensure that the most economic option is identified.

### 2.2 Inflation

Annual inflation rate in the UK fell significantly over the last twelve months, and more recently from 6.7% in September to 4.0% in December. This reduction was bigger than expected, and means that the UK is no longer an international outlier.



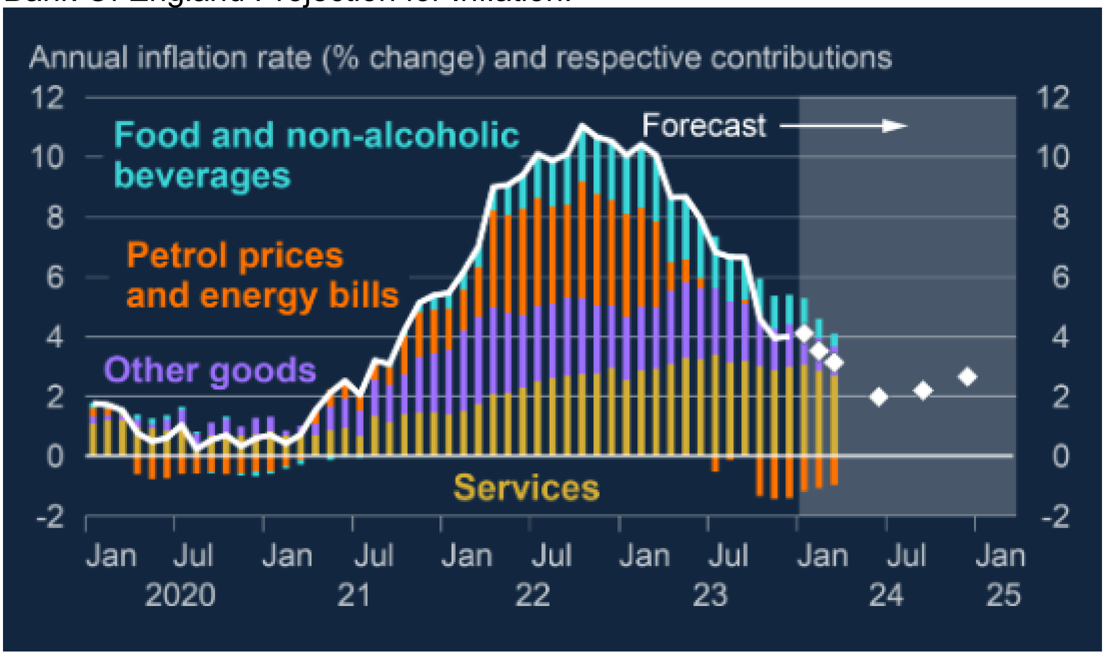
Largest Contributions to annual CPI inflation rate




Source: Consumer price inflation from the Office for National Statistics

The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

Bank Of England Projection for Inflation:



### 2.3 UK Government finances

Public sector net borrowing excluding public sector banks in the UK was £7.8 billion in December, around half or £8.4 billion less than that borrowed in December 2022 and the lowest December borrowing since 2019.

The £7.8 billion borrowed in December 2023, combined with a downward revision of £5.0 billion to our previously published financial year-to-November 2023 borrowing estimate, brings the provisional estimate for the total borrowed in the financial year-to-December 2023 to £119.1 billion. This was £5.0 billion lower borrowing than the £124.1 billion forecast by the Office for Budget Responsibility (OBR).

Public sector net debt excluding public sector banks (PSND ex) was £2,437.9 billion at the end of December 2023, or around 88.7% of gross domestic product (GDP).

### 2.4 Bank of England forecasts

At the December monetary policy committee (MPC) meeting, the Bank of England left interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that “further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures”. And it stated that policy will be “sufficiently restrictive for sufficiently long” and that “monetary policy is likely to need to be restrictive for an extended period of time”. In other words, the message is that the MPC is not yet willing to endorse investors’ expectations that rates will be cut as soon as May 2024.

with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

**UK Interest Rate Forecast**

| Link Group Interest Rate View 08.01.24 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 |
| BANK RATE | 5.25 | 5.25 | 4.75 | 4.25 | 3.75 | 3.25 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 3 month ave earnings | 5.30 | 5.30 | 4.80 | 4.30 | 3.80 | 3.30 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 6 month ave earnings | 5.20 | 5.10 | 4.60 | 4.10 | 3.70 | 3.30 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 |
| 12 month ave earnings | 5.00 | 4.90 | 4.40 | 3.90 | 3.60 | 3.20 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 | 3.20 | 3.20 |
| 5 yr PWLB | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 3.80 | 3.70 | 3.60 | 3.60 | 3.50 | 3.50 | 3.50 |
| 10 yr PWLB | 4.70 | 4.50 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 3.90 | 3.80 | 3.70 | 3.70 | 3.70 | 3.70 |
| 25 yr PWLB | 5.20 | 5.10 | 4.90 | 4.80 | 4.60 | 4.40 | 4.30 | 4.20 | 4.20 | 4.10 | 4.10 | 4.10 | 4.10 |
| 50 yr PWLB | 5.00 | 4.90 | 4.70 | 4.60 | 4.40 | 4.20 | 4.10 | 4.00 | 4.00 | 3.90 | 3.90 | 3.90 | 3.90 |

# 3. Annual Investment Strategy

### 3.1 Annual Investment Strategy

The Council's investment policy has regard to the DLUHC Guidance on Local Government Investments and the CIPFA Treasury Management Code of Practice which requires the Council to formulate a strategy each year regarding the investment of its revenue funds and capital receipts. Authorities are required to take the guidance into account under the terms of section 12 of the Local Government Act 2003.

In accordance with the guidance from DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings.

The income and expenditure flow of the Council is such that funds are temporarily available for investment. Under the Annual Investment Strategy the Council may use, for the prudent management of its treasury balances, any of the investments highlighted under the headings of Specified Investments and Non-Specified Investments as detailed in the final section of this strategy.

### 3.2 Creditworthiness Policy

The Council uses the creditworthiness service provided by its treasury advisor, Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies Fitch, Moody's and Standard and Poor's. In addition, in line with the Treasury Management Code of Practice, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:-

- Credit watches and credit outlooks from credit rating agencies.
- Credit Default Swap (CDS) spreads to give an early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration of investments and are therefore referred to as durational bands. The Council is satisfied that this service gives the required level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by a selection of institutions down to a minimum durational band with Link's weekly credit list of worldwide potential counterparties.

The Link Asset Services creditworthiness service uses ratings from all three agencies and uses a wider array of information than just primary credit ratings to determine creditworthy counterparties. By using this approach and applying it to a risk weighted scoring system, it does not give undue over reliance to just one agency's ratings.

### 3.3 Monitoring of Credit Ratings

All credit ratings will continue to be monitored continuously and formally updated monthly if any changes are required. The Council is alerted to interim changes in ratings from all three agencies by Link Asset Services.

If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty will be withdrawn immediately. If a counterparty is upgraded so that it fulfils the Councils criteria, its inclusion will be considered for approval by the S151 Officer.

In addition to credit ratings the Council will be advised of information in movements in CDS against the iTraxx benchmark and other market data on a daily basis via the Passport website. Extreme market movements may result in the downgrade of an institution or the removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will monitor the financial press and also use other market data and information e.g. information on external support for banks.

### 3.4 UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities from the 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

The Council currently has investments with HSBC, Barclays & Lloyds. HSBC and Lloyds are classified as ring fenced banks and Barclays as non ring fenced. All these institutions appear on Link Asset Services approved lending list and meet the council's creditworthiness criteria.

**3.5 Country Limits**

The Council will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). It is recommended that UK institutions continue to be used unless the sovereign credit rating falls below A. Following the problems with Icelandic Banks lending is currently restricted to the UK which currently has a sovereign credit rating of AA and Sweden which has the highest possible sovereign rating of AAA. The S151 Officer has delegated authority to revert back to placing investments in countries with a minimum sovereign credit rating of AA- in line with Link's revised creditworthiness policy if required.

**3.6 Security of Capital**

The Council's current policy is to not place investments with any Foreign banks. The only exception to this is a call account set up with the Swedish bank, Handelsbanken, but this is a highly rated institution and the sovereign rating of Sweden is AAA. Funds are also repayable immediately if required.

Following approval of the S151 Officer, lending to AAA rated Money Market Funds has also been recommenced. Lending to other Foreign banks which comply with Link's creditworthiness policy may be considered again but only with the express approval of the S151 Officer.

In addition, in order not to solely rely on an institution's credit ratings there have also been a number of other developments which require separate consideration, set out below.

**Part Nationalised banks** in the UK effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. This is because the Government owns significant stakes in the banks and this ownership is set to continue. Link are still supportive of the Council using these institutions with a maximum 12 month duration. For this reason Royal Bank of Scotland (RBS) and National Westminster Bank which are part of the RBS Group are included on the approved counterparty list.

**Local Authorities** are not credit rated but where the investment is a straightforward cash loan, statute suggests that the credit risk attached to local authorities is an acceptable one (Local Government Act 2003 s13). Local Authorities are therefore included on the approved list.

The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rated and Part Nationalised Institutions the maximum amount is currently limited to £20m. This limit will be reviewed however against the level of cash balances that are available to invest, to ensure that the limits are amended accordingly. Any changes to the maximum limit must be approved by the S151 Officer.

**3.7 DLUHC Investment Guidance**

Guidance from the DLUHC requires Councils to give priority to the security and portfolio liquidity of investments over yield whilst still aiming to provide good returns. This is in line with the Council's current practice and it is recommended that the policy should be reaffirmed.

The guidance also requires Councils to categorise their investments as either “specified” or “non-specified” investments.

**3.8 Specified Investments**

Specified investments are deemed as “safer” investments and must meet certain conditions, i.e. they must:-

- be denominated in sterling
- have less than 12 months duration
- not constitute the acquisition of share or loan capital
- either: be invested in the UK government or a local authority or a body or investment scheme with a “high” credit quality.

The Council is required to specify its creditworthiness policy and how frequently credit ratings should be monitored. It must also specify the minimum level of such investments.

Of the investments currently authorised by the Council, deposits in the Debt Management Office Account and with other Local Authorities automatically qualify as specified investments as they are of less than 12 months duration and are denominated in sterling.

The classification of the other investments is dependent on the counterparty having high credit quality in line with Link’s creditworthiness policy. The Council is alerted to any changes in an institutions credit rating by Link Asset Services.

**3.9 Non Specified Investments**

These are any investments which do not meet the specified investment criteria outlined above. The Council is required to look at non-specified investments in more detail. It must set out:

- procedures for determining which categories of non-specified investments should be used
- the categories deemed to be prudent
- the maximum amount to be held in each category

The Strategy must also set out procedures for determining the maximum period for committing funds.

It is recommended that the following procedure be adopted for determining which categories of non-specified investments should be used:
- the Cabinet/Council should approve categories on an annual basis
- advice should be provided by the S151 Officer
- priority should be given to security and portfolio liquidity ahead of yield

It is recommended that for specified investments the range of maximum limits is set between £5m and £20m for the internal treasury team. For non specified investments it is recommended that the limit for the internal treasury team should be restricted to £70m of the total investment portfolio. Any changes to the maximum limits must be approved by the S151 Officer.

Full details of the specified and non-specified investments are set out in section 6 of the Treasury Strategy.

**3.10 Temporary Investment Strategy**

The market is continually monitored for opportunities to lock in to higher, longer term rates in order to bring some stability to the returns going forward and add value. However, based on the interest rate assumptions outlined above, we do not expect to lock into longer term deals unless exceptionally attractive rates are available which make longer term deals worthwhile.

For the cash flow generated balances, we will seek to utilise instant access accounts, Money Market Funds and short dated deposits (1-3 months) in order to benefit from the compounding of interest. The present strategy is to diversify investments so as to spread risk over a range of investment types and periods and provide the opportunity to enhance returns. All investments will continue to be made in accordance with the Local Government Act 2003, and with those institutions on the authorised lending list. The credit status of institutions on the approved list is monitored continuously.

**3.11 Policy on the use of external service providers**

The Council currently uses Link Asset Services, as its external treasury management advisers. The Council recognises that the responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to review.

**3.12 Scheme of Delegation**

Full Council

- Approval of Treasury Strategy.
- Receiving and reviewing reports on treasury management policies, practices and activities including the Annual Treasury Report and Mid-Year Strategy Report.
- Budget consideration and approval

Cabinet

- Receiving & reviewing Treasury Strategy, Mid-Year Strategy Report, Annual Treasury Report and Quarterly Treasury Management Update Reports

Audit Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Receiving & reviewing Treasury Strategy, Mid Year Report, Annual Treasury Report.

**3.13 Role of the Section 151 Officer**

The role of the S151 Officer in relation to treasury management is as follows:-

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly and monitoring compliance.
- Approval of segregation of responsibilities.
- Approval of the Treasury Policy Statement and Treasury Management Practices.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function. Medium Term Financial Strategy Summary
- Ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service providers.

The above list of specific responsibilities of the s151 Officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both Codes, is a major extension of the functions of this role, especially in respect of non-financial investments:-

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing

- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

**3.14 Pension Fund Cash**

The Council complies with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and does not pool pension fund cash with its own balances for investment purposes.

# 4. Prudential and Treasury Indicators

### 4.1 Specified and Locally Adopted Prudential Indicators

The Prudential Code and CIPFA Code of Practice on Treasury Management require the Council to set a number of Prudential and Treasury Indicators. In addition to the specified indicators, we have set further internal indicators for Treasury Management, regarding lower limits on interest rate exposure for both borrowing and investments.

These are summarised below, and details are set out in the following paragraphs.

**Capital Prudential Indicators:**
1. Capital Expenditure and Financing
2. Borrowing Need
3. Liability Benchmark

**Treasury Indicators:**
4. External debt – Operational Boundary
5. External debt – Authorised Limit
6. External debt - Interest rate exposure; Borrowing (fixed rate and variable rate debt)
7. External investment - Interest rate exposure; investments (fixed rate and variable rate investments)
8 External debt – maturity structure (profile of when debts become due in coming years)
9.Maturity limits – investments

It should be noted that these indicators should not be used for comparison with indicators from other local authorities as Treasury Management policies and practices vary with local circumstances.

**Prudential Indicator 1 – Capital Expenditure and Financing**
The estimated capital expenditure has been split between Non HRA and HRA and represents commitments from previous years to complete ongoing schemes, the expenditure arising from the proposed new schemes within the capital programme for 2022/23, and the estimated expenditure for 2023/24, 2023/24 and 2024/25. This indicator also includes details on the financing of capital expenditure.

| Capital Expenditure | 2022/23 Actual £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m | 2026/27 Estimate £m |
|---|---|---|---|---|---|
| Non HRA Capital expenditure | 74.2 | 88.3 | 88.2 | 104.9 | 39.9 |
| HRA Capital expenditure | 8.1 | 16.2 | 29.3 | 14.2 | 9.0 |
| **Total Capital expenditure** | **82.3** | **99.4** | **117.5** | **119.1** | **48.9** |
| | | | | | |
| **Financing of capital expenditure** | **2022/23 Actual £m** | **2023/24 Estimate £m** | **2024/25 Estimate £m** | **2025/26 Estimate £m** | **2026/27 Estimate £m** |
| Capital receipts | (7.2) | (12.5) | (9.8) | (8.4) | (4.1) |
| Capital grants | (35.2) | (51.3) | (57.2) | (79.4) | (29.6) |
| Other Contributions | (14.3) | (7.3) | (5.5) | (6.2) | (0.5) |

| | | | | | |
|---|---|---|---|---|---|
| Major Repairs Allowance | (4.2) | (7.1) | (4.8) | (5.0) | (5.0) |
| Revenue Contributions | (1.4) | (3.6) | (0.2) | (0.7) | (0.4) |
| **Net Financing need for the year** | **20.0** | **17.6** | **40.0** | **19.4** | **9.3** |

**Prudential Indicator 2 – Borrowing Need**
The capital financing requirement (CFR) is the maximum we would expect to borrow based on the total historic outstanding capital expenditure which has not been paid for from either revenue or capital resources. Therefore it is essentially a measure of the Authority's underlying borrowing need. The CFR does not increase indefinitely as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

Compliance with the indicator will mean that this limit has not been breached. Gross borrowing includes debt administered on behalf of Telford and Wrekin Council, Magistrates Courts and Probation Service. It also includes the debt transferred from Oswestry Borough Council and North Shropshire District Council on the 1st April 2009. In accordance with the Code the HRA Capital Financing requirement has been calculated separately and has been updated due to the HRA reform which took place on the 28 March 2012.

| Gross borrowing less than CFR | 2022/23 Actual £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m | 2026/27 Estimate £m |
|---|---|---|---|---|---|
| **Capital Financing Requirement:** | | | | | |
| Non HRA Capital Financing Requirement | 304 | 325 | 345 | 337 | 325 |
| HRA Capital Financing Requirement | 92 | 97 | 111 | 119 | 122 |
| **Total CFR** | **396** | **422** | **456** | **456** | **447** |
| **Movement in CFR** | **38** | **26** | **33** | **0** | **(8)** |
| | | | | | |
| **Movement in CFR represented by** | | | | | |
| Net financing need for the year (above) | 31 | 27 | 32 | 4 | 1 |
| Less MRP/VRP and other financing movements | 7 | (1) | 1 | (4) | (9) |
| **Movement in CFR** | **38** | **26** | **33** | **0** | **(8)** |
| | | | | | |
| Gross Borrowing (including HRA) | 292 | 286 | 285 | 285 | 285 |
| Investments | 84 | 50 | 50 | 50 | 50 |
| **Net Borrowing** | **208** | **236** | **235** | **235** | **235** |

**Prudential Indicator 3 – Liability Benchmark**
This identifies the net borrowing requirement of a local authority plus a liquidity allowance. There are four components to the Liability benchmark:

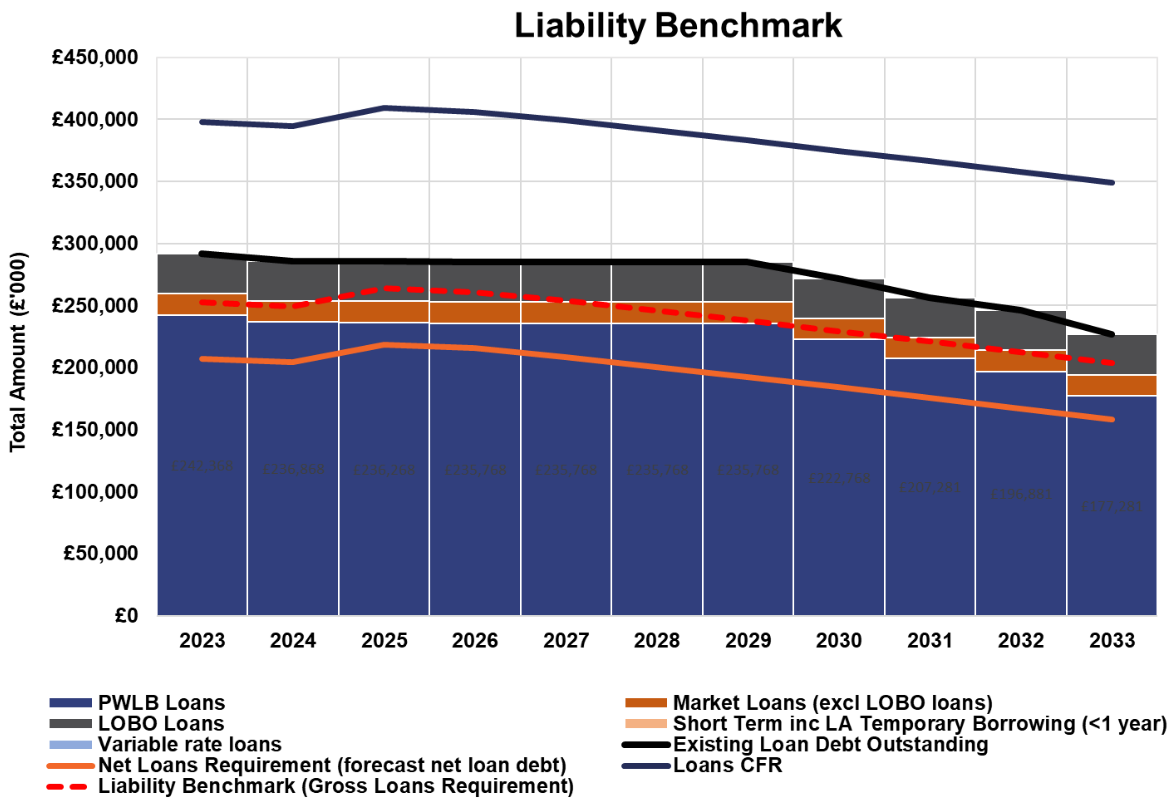
**Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.

**Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

**Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

**Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Calculation of the Liability Benchmark is a complex calculation and has been undertaken by officers with assistance from the Council's Treasury Advisors, LINK to produce the information using a complex model.




Shropshire's calculated Liability Benchmark has been determined for ten years, 2023/24 to 2032-33, in accordance with CIPFA's recommendation. As an absolute minimum CIPFA requires the Liability Benchmark to be estimated and measured for the forthcoming financial year and the following two financial years and strongly recommends that the Liability Benchmark is produced for at least ten years.

The data shows that when the Loans Capital Financing Requirement (CFR) falls but remains positive and the Existing Loan Debt Outstanding also begins to fall, the Liability Benchmark and the Net Loan Requirement remain below the Existing Loan Debt Outstanding, so boosting the level of potential external investment.

This may not actually reflect what happens over time however, as the modelling suggested by CIPFA does not take account of any new approved capital expenditure / CFR increases beyond the extent of the currently approved Capital Programme (financial years 2024-25 to 2027-28), i.e. CFR increases projected in the Capital

Strategy are not included in the model. Similarly, the data does not take account of the replacement of any existing loans that mature over the life of the model.

We continue to forecast that internal borrowing will form part of the financing mix for the CFR and that is represented in the chart by the gap between the Loans CFR and the Existing Loan Debt Outstanding (PWLB, Market and LOBO loans). The indicator does suggest we could run greater net borrowing by taking the existing loans down to the Liability Benchmark, but that would require early repayment of some of the current external loans held by the Authority.

**Prudential Indicator 4 – External Debt – Operational Boundary**
This is the maximum borrowing limit set for Shropshire Council and includes the HRA borrowing. This indicator shows the maximum permitted amount of outstanding debt for all purposes. It includes three components:
1. The maximum amount for capital purposes;
2. The maximum amount for short term borrowing to meet possible temporary revenue shortfalls;
3. The maximum permitted for items other than long term borrowing i.e. PFI & leasing.

| Operational Boundary | 2024/25 Estimate £m | 2025/26 Estimate £m | 2026/27 Estimate £m |
|---|---|---|---|
| Debt | 394 | 395 | 387 |
| Other long term liabilities | 86 | 89 | 85 |
| **Total** | **480** | **484** | **473** |

**Prudential Indicator 5 – External Debt – Authorised Limit**
This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Authority is asked to approve the following Authorised Limit:

| Authorised Limit | 2024/25 Estimate £m | 2025/26 Estimate £m | 2026/27 Estimate £m |
|---|---|---|---|
| Debt | 460 | 450 | 443 |
| Other long term liabilities | 86 | 89 | 85 |
| **Total** | **546** | **539** | **528** |

**Prudential Indicator 6 – Interest Rate Exposure – Borrowing Limits**
The Prudential Code requires the Council to set interest rate exposure limits for borrowing and investments.

| Interest Rate Exposure | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|
| **Borrowing Limits** | **£m** | **£m** | **£m** |
| Upper Limit for Fixed Interest Rate Exposure | 546 | 539 | 528 |
| Upper Limit for Variable Interest Rate Exposure | 273 | 270 | 264 |
| Lower Limit for Fixed Interest Rate Exposure | 273 | 270 | 264 |
| Lower Limit on Variable Interest Rate Exposure | 0 | 0 | 0 |

These indicators seek to control the amount of debt exposed to fixed and variable interest rates. Variable rate debt carries the risk of unexpected increases in interest rates and consequently increases in cost. The upper limit for variable rate exposure has been set following advice from Link, however, this limit is unlikely to be reached due to authority's objective to have no more than 25% of outstanding debt at variable interest rates.

Calculation of indicators is set out below

- Upper limit for fixed rate exposure; A maximum of 100% of the Authorised Limit (£546m in 2024/25) exposed to fixed rates is consistent with the Authority's objective to have a long term stable debt portfolio.
- Upper limit for variable rate exposure; For efficient management of the debt portfolio it is considered prudent by Link to permit up to 50% (£273m in 2024/25) of the Authorised Limit to be borrowed at variable interest rates.
- Lower limit for fixed rate exposure; Upper limit for fixed rate exposure less the maximum permitted borrowing at variable interest rates
- Lower limit for variable rate exposure; Calculation: To be consistent with the Authority's objective to have a long term stable portfolio all of the debt portfolio could be at a fixed rate therefore the lower limit for variable rate exposure should be nil.

**Prudential Indicator 7 – Interest Rate Exposure – Investment Limits**

| Interest Rate Exposure | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|
| **Investment Limits** | **£m** | **£m** | **£m** |
| Upper Limit for Fixed Interest Rate Exposure | 250 | 250 | 250 |
| Upper Limit for Variable Interest Rate Exposure | 250 | 250 | 250 |
| Lower Limit for Fixed Interest Rate Exposure | 0 | 0 | 0 |
| Lower Limit on Variable Interest Rate Exposure | 0 | 0 | 0 |

These indicators seek to control the amount of investments exposed to fixed and variable interest rates. Variable rate investments are subject to changes in interest rates, but have a higher degree of liquidity and action can be taken at short notice in response to interest rate changes.

- Upper limit for fixed rate exposure: Maximum amount of fixed rate investments in order to maintain a stable investment portfolio.
- Upper limit for variable rate exposure: For the purposes of efficient portfolio management in response to interest rate conditions a maximum potential exposure to variable rates of £250m in 2024/25 is recommended.
- Lower limit for fixed rate exposure: A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.
- Lower limit for variable rate exposure: A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

**Prudential Indicator 8 – Upper and lower limits for the maturity structure of debts (borrowings)**

| Limits for the maturity structure of debts (borrowing) | Upper Limit | Lower Limit |
|---|---|---|
| **Maturity Structure of Fixed/Variable Rate Borrowing During 2024/25*** | **%** | **%** |
| Under 12 months | 15 | 0 |
| 12 months & within 24 months | 15 | 0 |
| 24 months & within 5 years | 45 | 0 |
| 5 years & within 10 years | 75 | 0 |
| 10 years & within 20 years | 100 | 0 |
| 20 years & within 30 years | 100 | 0 |
| 30 years & within 40 years | 100 | 0 |
| 40 years & within 50 years | 100 | 0 |
| 50 years and above | 100 | 0 |

* Internal limit is to have no more than 15% of total outstanding debt maturing in any one financial year. This is to ensure that the risk of having to replace maturing debt at times of high interest rates is controlled.

**Prudential Indicator 9 – Maturity Limits - Investments**
The Council is required to set maximum levels for investments over 365 days for both the internal treasury team and an external fund manager if appointed

| Maturity Limits > 365 days | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|
| **Investment Limits** | **£m** | **£m** | **£m** |
| Upper Limit for Total Principal Sums Invested for over 365 days: | | | |
| Externally Managed (if appointed) | 50 | 50 | 50 |
| Internally Managed | 70 | 70 | 70 |

Shropshire Council

# 5. Minimum Revenue Provision (MRP) Statement

**<u>The Council's Annual Minimum Revenue Provision Statement</u>**

## 5.1 Statutory Requirements

The Council is required by statute to set aside a minimum revenue provision (MRP) to repay external debt. The calculation of the minimum revenue provision (MRP) is as per the Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414]. In regulation 28, detailed rules were replaced with a simple duty for an authority to make an amount of MRP which it considers to be "prudent".

The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant. The guidance includes four options (and there are two alternatives under Option three) for the calculation of a prudent provision.

There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial years. There is also no requirement to charge MRP on the Housing Revenue Account share of the CFR.

The legislation recommends that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of that financial year and submits it to the Full Council for approval.

The Department for Levelling Up, Housing & Communities (DLUHC) issued "Consultation on changes to the capital framework: Minimum Revenue Provision" on 30th November 2021. The consultation paper primarily covered the concerns that the government has in respect of compliance with the duty to make a prudent revenue provision, which in their view, results in an underpayment of Minimum Revenue Provision (MRP). The consultation document states that the DLUHC are not intending to change the statutory MRP guidance, but to clearly set out in legislation the practices that authorities should already be following.

The government is proposing additional text to be added to the 2003 Regulations to make explicit that:

1. Capital receipts may not be used in place of the revenue charge. The intent is to prevent authorities avoiding, in whole or part, a prudent charge to revenue. It is not the intention to prevent authorities using capital receipts to reduce their overall debt position, which may have the effect of reducing the MRP made with respect to the remaining debt balance.

2. Prudent MRP must be determined with respect to the authority's total capital financing requirement. The intent is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Authorities should still be able to charge MRP over the period in which their capital expenditure provides benefits and begin charging MRP in the year

following capital expenditure, in accordance with proper accounting practices set out in the government's statutory guidance on Minimum Revenue Provision.

The consultation identified two main issues:

- Some authorities use capital receipts in lieu of all or part of the revenue charge (MRP).
- Some authorities exclude investment assets from the MRP determination.

The government's view is that both practices are not permitted under the Framework.

The government have not yet issued a final response to the consultation though and so members will be updated on any implications for the Council's MRP policy once the regulation changes are finalised.

**5.2 Policy for Calculation of Prudent Provision**

The options for the calculation of a Prudent Provision are detailed in section 5.11 of this report. Authorities must always have regard for the guidance and the decision on what is prudent is for the authority to conclude, taking into account detailed local circumstances, including specific project timetables and revenue-earning profiles.

Following a review of the MRP policy from 2018/19 the prudent provision for Supported Borrowing has been calculated based on the expected useful life of the asset on an annuity calculation basis.

Option 3a - Asset life method (Unsupported Borrowing) - equal instalment method will continue to be used for unsupported borrowing agreed prior to 2018/19 and specific treatment for PFI Assets and assets held under Finance Leases and long-term capital loans. For any approved unsupported borrowing from 2018/19 the prudent provision will be calculated on an annuity basis linked to the expected useful life of the asset for consistency with the Supported Borrowing calculation, Option 3b.

**5.3 Supported Borrowing**

From 2016/17 the approach for calculating the MRP was on a straight line (equal instalments) calculation basis on the remaining asset life of the assets linked to the borrowing. An analysis of the average remaining asset life of the assets financed from previous supported borrowing, determined the average remaining life to be around 45 years and this was used as the basis of calculation.

From 2018/19 Council approved to adopt the annuity calculation method for supported borrowing whilst retaining the link to the average remaining useful life of the assets it was used to finance. The annuity calculation method results in lower MRP payments in the early years, but higher payments in later years. This method has the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years.

CIPFA puts forward the following reasons for using the annuity method in CIPFA's "The Practitioner's Guide to Capital Finance in Local Government" (2008) which states:

- The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 year's time, is less of a burden than paying £100 now.
- The schedule of charges produced by the annuity method results in a consistent charge over an asset's life, taking into account the real value of the amounts when they fall due.
- The annuity method is a prudent basis for providing for assets that provide a steady flow of benefits over their useful life.

For 2018/19 and onwards the Council has adopted the annuity-based calculation on a 45- year basis.

**5.4 Unsupported Borrowing - Asset Life Method**

For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed (unsupported borrowing) the MRP has been calculated in accordance with Option 3 Asset Life Method. Option 3 is to make provision over the estimated life of the asset for which the borrowing is undertaken.

Freehold land cannot properly have a life attributed to it, so for the purposes of Option 3 it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate may be used for the land.

To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate. For energy efficiency schemes the payback period of scheme is used as the basis for calculating the period over which MRP is calculated.

This method is a straightforward calculation of MRP for unsupported borrowing which calculates MRP based on asset life.

Provision for debt under Option 3 will normally commence in the financial year following the one in which the expenditure is incurred. But the guidance highlights an important exception to the rule. In the case of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This "MRP holiday" would be perhaps two or three years in the case of major projects, or possibly longer for some complex infrastructure schemes, and could make them more affordable.

Prior to 2018/19 the Council adopted the Option 3a Straight Line calculation for unsupported borrowing. From 2018/19 Council approved to adopt the Option 3b annuity calculation method for new unsupported borrowing whilst retaining the link to the average remaining useful life of the assets it was used to finance. The annuity calculation method results in lower MRP payments in the early years, but higher payments in later years. This method has the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years.

The authority can still make voluntary extra provision for MRP in any year.

**5.5 Adjustment A**

This is an accounting adjustment to the MRP calculation that ensures consistency with previous capital regulations. Once calculated, the amount remains constant within the MRP calculations.

Between 2016/17 and 2017/18 the adjustment A was not included in the MRP calculation but continues to be a legitimate part of the calculation under the 2003 Regulations (Regulation 28) and can therefore continue to be used to reduce the supported borrowing CFR for MRP purposes. It has been considered to be prudent to include the Adjustment A value from 2018/19 onwards to calculate the CFR value. For Shropshire the fixed Adjustment A calculation is £4,446,483.75.

**5.6 PFI Assets and Assets Held Under Finance Leases**

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.

**5.7 Long Term Capital Loans**

The Council has made available a small number or capital loans to Housing Associations and Village Halls and also to the Council’s wholly owned housing company, Cornovii Developments Limited (CDL), financed from the Council’s balances.

The revenue MRP charge for long term capital loans is calculated using the Asset Life Method and the loan term.

**5.8 Housing Revenue Account MRP**

As at 31/03/23 the HRA CFR is £92m, this includes the £83.35m transferred to the Council as part of housing self-financing. In managing the HRA debt and considering the HRA business plan 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. The annual level of provision will be determined annually as part of the closure of the HRA.

**5.9 2024/25 Annual MRP Statement**

Section 5.11 provides the MRP statement for the 2024/25 financial year.

**5.10 Capital Receipts Set Aside**

The current regulations, Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414] state that the minimum revenue provision is calculated using the previous year's closing Capital Financing Requirement for supported borrowing.

In 2009/10 Shropshire Council got DCLG approval to allow the new council to voluntarily set aside capital receipts as at 1st April 2009 to reduce the CFR and consequently reduce the MRP charge for 2009/10. This approach was discussed with our Treasury Advisors and External Auditors and was approved by Members in a report to Council in December 2009.

As the extent of new borrowing is not subject to any limitation the sum of capital receipts set aside are still available to support capital expenditure in future years. This will increase the CFR to its previous level and the MRP charge in future years will increase, but not beyond the level had the saving not been generated in 2009/10. Thus, the saving in MRP is therefore temporary, albeit very helpful to the short-term financial position.

As the full level of capital receipts set aside were not required to finance capital expenditure between 2009/10 and 2020/21, a balance was retained as set aside as at the end of each financial year to enable a further MRP saving in the following financial years. In the 2024/25 MRP Statement it has been assumed all the capital receipts retained as set aside as at 31 March 2024 to reduce the CFR will be offset by an increase in the CFR in 2024/25 from capital expenditure incurred in 2024/25. In the event that the level of capital expenditure in 2024/25 to be financed from the capital receipts set aside is below the level of capital receipts set aside, it is proposed to retain the balance in capital receipts as set aside in order to achieve a further MRP saving in 2025/26. This will be reported for approval as part of the Capital Outturn report 2024/25.

**5.11 Options for Prudent Provision**

**Option 1: Regulatory Method (Supported borrowing)**

MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations. For the purposes of that calculation, the Adjustment A should normally continue to have the value attributed to it by the authority in the financial year 2004-05. However, it would be reasonable for authorities to correct any perceived errors in Adjustment A, if the correction would be in their favour.

**Option 2: CFR Method (Supported borrowing)**

MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. Option 3: Asset Life Method (Unsupported borrowing) Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. There are two main methods by which this can be achieved, as described below. Under both variations, authorities may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

**(a) Equal Instalment Method**
MRP is the amount given by the following formula:

$$\frac{A - B}{C}$$

Where:
**A** is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements
**B** is the total provision made before the current financial year in respect of that expenditure
**C** is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

For the purpose of the above formula in the initial year of making the MRP the variable "C" should be given the maximum values set out in the following table:

| Expenditure Type | Maximum value of "C" in initial year |
|---|---|
| Expenditure capitalised by virtue of a direction under s16(2)(b) | "C" equals 20 years |
| Regulation 25(1)(a) Expenditure on computer programs | "C" equals the value it would have for computer hardware |
| Regulation 25(1)(b) Loans and grants towards capital expenditure by third parties | "C" equals the estimated life of the assets in relation to which the third-party expenditure is incurred |
| Regulation 25(1)(c) Repayment of grants and loans for capital expenditure | "C" equals 25 years, or the period of the loan, if longer |
| Regulation 25(1)(d) Acquisition of share or loan capital | "C" equals 20 years |
| Regulation 25(1)(e) Expenditure on works to assets not owned by the authority | "C" equals the estimated life of the assets |
| Regulation 25(1)(ea) Expenditure on assets for use by others | "C" equals the estimated life of the assets |
| Regulation 25(1)(f) Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings | "C" equals 25 years |

**(b) Annuity Method**
MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (e.g. by the application of capital receipts) should be made as necessary.

**Option 4: Depreciation Method (Unsupported borrowing)**
MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

For this purpose, standard depreciation accounting procedures should be followed, except in the following respects.

a. MRP should continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the authority may cease to make MRP.
b. On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. But this does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.
c. Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

# Minimum Revenue Provision Statement 2024/25

| | £ |
|---|---|
| **General Fund** | |
| Closing CFR 2022/23 | 186,074,365 |
| Proposed use of capital receipts voluntarily set aside to be applied in 2023/24 | 17,465,369 |
| Adjustment A | -4,446,484 |
| Less transfer of asset from GF to HRA | 0 |
| | 199,093,251 |
| | |
| Less LGR (98) Debt | -30,184 |
| | **199,063,067** |
| | |
| Less MRP 2023/24 | -2,698,778 |
| Add Back LGR (98) Debt | 30,184 |
| | |
| **CFR for Supported Borrowing MRP Calculation** | **196,394,473** |
| | |
| Add Back Adjustment A | 4,446,484 |
| | |
| **Closing CFR 31/03/24 - Supported Borrowing (GF)** | **200,840,957** |
| | |
| **Housing Revenue Account** | |
| Closing CFR 2022/23 | 92,251,785 |
| Add profiled prudential borrowing 2023/24 | 12,541,579 |
| Add transfer of asset from GF to HRA | 0 |
| Less MRP 2023/24 (none budgeted as per HRA MRP policy) | 0 |
| | **104,793,363** |
| | |
| **Closing CFR 31/03/24 - Supported Borrowing (GF & HRA)** | **305,634,320** |
| | |
| **<u>Unsupported Borrowing - Asset Life (based on individual assets)</u>** | |
| | |
| Unsupported Borrowing brought forward | 118,417,022 |
| Add profiled prudential borrowing 2023/24 | 20,602,961 |
| Less MRP - 2022/23 | -3,503,481 |
| **Clsoing CFR 31/03/24 - Unsupported Borrowing** | **135,516,502** |
| | |
| **Closing CFR (GF & HRA)31/03/24 - Unsupported Borrowing** | **441,150,823** |
| | |
| Additional items included: | |
| Village Hall Loans | 258,446 |
| Housing Associations Loans | 14,665,822 |
| Cornovii Developments Ltd | 13,250,000 |
| | **469,325,091** |
| | |
| **<u>Summary MRP</u>** | |
| | |
| MRP 2024/25 on Annuity Basis at 45 year life from 2018/19 | 2,768,360 |
| LGR (98) Debt MRP | 6,329 |
| Prudential Borrowing MRP | 3,926,166 |
| | |
| **TOTAL MRP 2024/25** | **6,700,855** |

# 6. Specified Investments

# LOCAL GOVERNMENT INVESTMENTS (England)
# SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

| Investment | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security/ Minimum Credit Criteria | Capital Expenditure? | Circumstance of use | Maximum period |
|---|---|---|---|---|---|---|
| **Term deposits** with the UK government (e.g. DMO Account) or with local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year | No | Yes | High security although most LAs not credit rated. | No | In-house and by external fund manager | 1 year |
| **Term deposits** with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year | No | Yes | Yes – Minimum colour band green | No | In-house and by external fund manager | 1 year |
| **Certificates of Deposit** issued by credit-rated deposit takers (banks and building societies) up to 1 year. Custodial arrangement required prior to purchase | No | Yes | Yes – Minimum colour band green | No | In house buy and hold and External fund managers | 1 year |
| **Banks nationalised by high credit rated (sovereign rating) countries – non UK** | No | Yes | Minimum Sovereign Rating AA | No | In house and external fund managers | 1 year |
| **UK Nationalised & Part Nationalised banks** | No | Yes | Yes – Minimum colour band green | No | In house and external managers | 1 year |
| **Government guarantee (explicit) on all deposits by high credit rated (sovereign rating) countries** | No | Yes | Yes – Minimum Sovereign Rating AA- / UK Sovereign Rating | No | In house and external fund managers | 1 year |
| **Bonds issued by multilateral development banks** (Euro Sterling Bonds as defined in SI 2004 No 534) | No | Yes | AAA | No | In-House on a buy and hold basis after consultation/advice from Link also for use by External fund manager | 1 year |
| **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail**<br>Custodial arrangement required prior to purchase | No | Yes | UK sovereign rating | No | | |
| Gilt Funds and Bond Funds (including Ultra-Short Dated Bond Funds) | No | Yes | AAA | No | In House and by external fund managers | 1 year |

| Investment | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security/ Minimum Credit Criteria | Capital Expenditure? | Circumstance of use | Maximum period |
|---|---|---|---|---|---|---|
| **Gilts** : up to 1 year Custodial arrangement required prior to purchase | No | Yes | Govt-backed UK Sovereign Rating | No | In House on a buy and hold basis and for trading by external fund manager subject to the guidelines and parameters agreed with them | 1 year |
| **Money Market Funds (CNAV), Enhanced Money Market Funds (LVNAV & VNAV) & Government Liquidity Funds (including CCLA Fund)** | No | Yes | Yes AAA rated & UK sovereign rating. Enhanced MMFs minimum colour Dark Pink/Light Pink & AAA rated | No | In-house and by external fund managers subject to the guidelines and parameters agreed with them | the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements.<br><br>Deposits are repayable at call. |
| **Treasury bills**<br>[Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value]<br><br>Custodial arrangement required prior to purchase | No | Yes | Govt-backed UK Sovereign Rating | No | In House or external fund managers subject to the guidelines and parameters agreed with them | 1 year |

## Monitoring of credit ratings:

All credit ratings will be monitored continuously and formally updated on a monthly basis if required. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Council's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.

Any intra-month credit rating downgrade which the Council has identified that affects the Council's pre-set criteria will also be similarly dealt with.

# LOCAL GOVERNMENT INVESTMENTS (England)
# NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated (with the exception of the WME US dollar account).

| Investment | a) Why use it?<br>b) Associated risks? | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security/ Minimum Credit Criteria | Capital Expenditure? | Circumstance of use | Max % of overall investments | Maximum maturity of investment |
|---|---|---|---|---|---|---|---|---|
| **Certificates of Deposit** with credit rated deposit takers (banks and building societies) with maturities greater than 1 year<br>Custodial arrangement required prior to purchase | (A) tradable more liquid than fixed term deposits<br><br>(B) (i) 'Market or interest rate risk': Yield subject to movement during life of CD which could negatively impact on price of the CD. (ii) Although in theory tradable, are relatively illiquid. | No | Yes | UK Sovereign rating | No | In house on a buy and hold basis after consultation/advice from Link & external cash fund manager(s) subject to the guidelines and parameters agreed with them. | 50% | Suggested limit: Average duration in the portfolio not to exceed 5 years |
| **Collateralised deposit** | Deposits are backed by collateral of AAA rated local authority | No | Yes | UK Sovereign rating | No | In house & External Manager | 25% | 5 years |
| **UK government gilts** with maturities in excess of 1 year<br><br>*Custodial arrangement required prior to purchase* | (A)((i) Excellent credit quality. (ii)Very Liquid). (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk<br><br>(B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss. | No | Yes | UK Sovereign rating | No | In house on a buy & hold basis following advice from Link and for trading by external cash fund manager subject to the guidelines and parameters agreed with them | 50% | Suggested limit : Average duration in the portfolio not to exceed 5 years |

| Investment | a) Why use it?<br>b) Associated risks? | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security/ Minimum Credit Criteria | Capital Expenditure? | Circumstance of use | Max % of overall investments | Maximum maturity of investment |
|---|---|---|---|---|---|---|---|---|
| **Term deposits with UK government, other Local Authorities, and credit rated deposit takers (banks and building societies) including callable deposits with maturities greater than 1 year** | A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment.<br><br>(B) (i) Illiquid: as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk: potential for greater deterioration in credit quality over longer period | No | No | Minimum colour band purple | No | In-House<br><br>For trading by external cash fund manager subject to the guidelines and parameters agreed with them | £40 million<br><br>50% | Suggested limit: 3 years |
| **Sovereign bond issues ex UK Government Gilts: any maturity** | A. (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk<br><br>B. (i) “Market or interest rate risk” : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss | No | Yes | AAA | No | For trading by external cash fund manager only subject to the guidelines and parameters agreed with them | 50% | Suggested limit:<br>5 years |
| **Bonds issued by multilateral development banks (Euro-Sterling Bonds) or issued by a financial institution guaranteed by UK government Custodial** | (A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk | Yes | Yes | AAA | No | In house on a buy and hold basis after consultation/advice from Link.<br><br>Also for use by external fund managers | 10%<br><br>50% | 5 years |

| Investment | a) Why use it?<br>b) Associated risks? | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security/ Minimum Credit Criteria | Capital Expenditure? | Circumstance of use | Max % of overall investments | Maximum maturity of investment |
|---|---|---|---|---|---|---|---|---|
| **arrangement required prior to purchase** | (B) (i) "Market or interest rate risk" : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss | | | | | | | |
| **Corporate Bonds & Corporate Bond funds (the use of these investments would constitute capital expenditure although this is currently under review)** | (A)(i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk<br><br>(B)(i) "Market or interest rate risk" : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss | Yes | Yes | Minimum Sovereign rating AA | Yes | To be used by external fund managers only | 50% | Suggested limit: 5 years |
| **Pooled property funds – including CCLA Local Authorities Property Fund** | Enhanced return but increased risk, only to be used following advice from Link | No | Yes | No Minimum Credit rating need to assess underlying assets within fund following advice taken from Link | No | In House Use & External Fund managers following advice from Link | 20% | 5 years |
| **Floating Rate notes** | (A)(i) Rate of return tied to some measure of current interest rates, so when interest rates are expected to go up they offer protection to investors against such rises (ii) In some | Yes | Yes | Minimum Colour band green | No | In House Use & External Fund managers following advice from Link | 10% | 3 years |

| Investment | a) Why use it?<br>b) Associated risks? | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security/ Minimum Credit Criteria | Capital Expenditure? | Circumstance of use | Max % of overall investments | Maximum maturity of investment |
|---|---|---|---|---|---|---|---|---|
| | circumstances may have access to banks which meet minimum credit criteria but generally don't take small fixed term deposit cash amounts<br><br>(B)(i) Credit quality : if financial health of issuer deteriorates, investors will demand a greater yield and the price of the bond will fall | | | | | | | |
| **US Dollar Deposits (WME Only)** | US dollar account to be utilised as a part of West Mercia Energy prudent management of income and expenditure, ensuring that ongoing US dollar commitments can be hedged, thus extinguishing any adverse risk of exposure to movements in the exchange rate and guaranteeing a known cashflow for West Mercia Energy. The account is only to be used for this purpose and not for the purpose of speculative or trading transactions. | No | Yes | Minimum Colour band green | No | West Mercia Energy only | N/A | 3 months |

Grant Thornton

# The Audit Findings for Shropshire Council

**Year ended 31 March 2023**

Updated 16th February 2024

Page 51

Agenda Item 11

# Contents

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Page 52

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

*Grant Patterson*

Grant Patterson
For Grant Thornton UK LLP
Date: 16 February 2024

# 1. Headlines

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

## Financial Statements

| | |
|---|---|
| Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:<br>• the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and<br>• have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.<br><br>We are also required to report whether other information published together with the audited financial statements including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. | An Interim Audit Findings Report was presented to the Audit Committee in November 2023. Key changes made to the previous report have been highlighted in yellow.<br><br>Our audit work has been conducted remotely throughout the audit. Our work is substantially complete subject to the following outstanding matters;<br>• Receipt of management representation letter;<br>• Completion of procedures regarding subsequent events;<br>• Review of final version of financial statements ;<br>• Final Manager and Engagement Lead review of the above<br><br>This is the final version of the Audit Findings Report for the year to 31st March 2023 and is an update to the version presented to Audit Committee in November 2023. Our findings are summarised on pages 5 to 24. Audit adjustments are detailed in Appendix D. We are reporting one material adjustment to the draft financial statements presented in May 2023 which has now been amended in the final version of the financial statements.<br><br>The adjustment has resulted in a £29.1m movement to the Council's Comprehensive Income and Expenditure Statement. This amendment relates to the movement in the net Pension Fund liability. As a result of the publication of the 31st March 2022 triennial valuation better information was available on conditions that existed at 31 March 2022 and the Council amended its 2021/22 financial statements after the 2022/23 accounts were published. There has therefore been a knock on impact into the 2022/23 financial statements. As a result of the statutory override this amendment does not impact on the general fund balances of the Council with the impact being reflected within the pension fund reserve account.<br><br>We also identified two non-trivial misstatements which have not been adjusted in the financial statements. These are detailed within Appendix D including the reason for non-adjustment. We are seeking Those Charged with Governance's agreement to management's decision not to amend for these on the basis that are not material either quantitatively or qualitatively. In summary, these are as follows:<br>• **Pension asset** - The response from the Pension Fund auditor includes details of an understatement of pension fund assets relating to a timing difference of £2.244m. Using an estimated share of the net assets associated with the Council of 45.11% as part of their audit procedures the Pension Fund auditor estimated the potential impact for Shropshire Council is £987k. Therefore, the net pension liability recognised in the statement of accounts is overstated by £987k. This does not impact on the general fund balance of the Council.<br>• **Other Land and Buildings**– Gross internal areas. Our testing of Other Land and Buildings has identified an error in the use of an incorrect gross internal area (Oswestry Leisure Centre). This has been revalued based on the correct GIA and the value of the asset is now £2.1m lower than the initial valuation. When extrapolated across the remaining untested population there is residual uncertainty of £1.5m, a total potential misstatement of £3.6m. This also does not impact on the general fund balance of the Council .<br><br>A number of disclosure and misclassification misstatements were also identified and are summarised in Appendix D.<br><br>We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. We identified recommendations as part of the 2021/22 financial statements, which resulted in eight recommendations being reported in our 2021/22 Audit Findings Report. Due to the timing of the 2021/22 Audit Findings Report it is reasonable that the Council has not yet had the opportunity to implement these recommendations. We will follow up recommendations as part of the 2023/24 audit for both the 2021/22 and 2022/23 financial years. |

Page 53

# 1. Headlines

| | |
|---|---|
| **Financial statements - continued** | We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.<br>We have nothing to report in relation to statutory powers or other duties.<br>We will be unable to certify the audit closed until our work on the whole of government accounts is complete and we have issued our Annual Auditor's Report. |
| **Value for Money (VFM) arrangements** | |
| Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.<br>Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:<br>• Improving economy, efficiency and effectiveness;<br>• Financial sustainability; and<br>• Governance | We have completed our VFM work and draft reports will be shared with management ahead of the Audit Committee. We are therefore not in a position to issue our final Auditor's Annual Report to this Audit Committee meeting. An audit letter explaining the reasons for the delay was included as an Appendix within the 2022/23 Audit Plan presented to the September 2023 Audit Committee. For reference this is included at Appendix H.<br>We expect to issue our joint Auditor's Annual Reports for 2021/22 and 2022/23 by 31 March 2024. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. |
| **Statutory duties** | |
| The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• to certify the closure of the audit. | We have not exercised any of our additional statutory powers or duties.<br>However, we have been contacted separately by 2 Shropshire taxpayers asking us to consider matters which they believe fall under the Local Audit and Accountability Act 2014. We are:<br>• liaising with them further to inform them of their statutory rights and the proper challenge procedures, and<br>• considering whether the information provided requires investigation under the Code of Audit Practice.<br>We completed our work on one objection on the 17 May 2023. Work on the other is progressing and we will keep the Audit Committee abreast of this matter. The objection relates to the 2020/21 financial year.<br>We expect to certify the completion of the audit upon the completion of the above and our work on the Council's Value For Money arrangements, which will be reported in our Annual Auditor's Report, as well as the completion of our work on the Whole of Government Accounts procedures. |
| **Significant matters** | We did not encounter any significant difficulties or identify any significant matters arising during our audit. |

# 1. Headlines

### National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

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

We would like to thank everyone at the Council for their support in working with us.

### National context – level of borrowing

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

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. We have not identified any similar risks regarding the Councils investment property portfolio.

# 2. Financial Statements

## Overview of the scope of our audit

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

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



## Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that no specified audit procedures for any components were required with analytical procedures being sufficient.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have made two minor changes to our audit approach to that reported in our Audit Plan. Following receipt of the draft financial statements and completion of our risk assessment and strategies in respect of Council Dwellings and Investment Property we determined that:

- The movements in council dwellings valuations were within our expectations and we therefore reduced them from a significant risk to an 'other risk' (SCOT+)
- The movements in investment properties valuations were not fully in line with our expectations and we therefore increased their risk from 'other risk' (SCOT+) to a significant risk.

## Conclusion

Our work is substantially complete subject to the following outstanding matters;

- Receipt of management representation letter;
- Completion of procedures regarding subsequent events;
- Review of final version of financial statements;
- Final Manager and Engagement Lead review.

We anticipate issuing an unqualified audit opinion following the 22nd February 2024 Audit Committee meeting .

**Acknowledgements**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

We continue to engage well with the central finance team and key staff members have been instrumental in supporting the wider audit, especially where requests require the involvement of other departments.

The 2022/23 audit has progressed at a faster pace than prior years but it has taken longer than expected. We are aware this has extended into the budget setting window of the Council which we appreciate is a challenging time and puts competing demands on finance staff. We have encountered some delays in responses from departments outside of the finance team and this has been escalated to Senior officers within the Council. This has helped to move some outstanding items forward.

Moving forward, we will review, in detail, the 2022/23 audit process alongside the Council and agree how the 2023/24 audit timeline and procedures can be enhanced to ensure the audit is completed as efficiently as possible.

# 2. Financial Statements

### Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

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

Page 57

| | Group Amount (£) | Council Amount (£) | Qualitative factors considered |
|---|---|---|---|
| Materiality for the financial statements | 9,000,000 | 8,900,000 | We determined materiality for the audit of the Council's financial statements as a whole to be £9m (Group) and £8.9m (single entity statements), which equates to approximately 1.3% of the Council's gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding. |
| Performance materiality | 6,300,000 | 6,230,000 | We use a different level of materiality, performance materiality, to drive the extent of our testing. Our consideration of performance materiality is based upon a number of factors:<br>• We have not historically identified significant control deficiencies as a result of our audit work<br>• We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment<br>• There were misstatements identified as part of the 2021/22 audit in relation to property, plant and equipment.<br>• There were recommendations raised in 2021/22 in relation to the Council's IT environment.<br>• Senior management and key reporting personnel in the finance function has remained stable from the prior year audit<br>On this basis we have maintained the performance materiality threshold at 70% which is consistent with prior year. |
| Trivial matters | 450,000 | 445,000 | We determined the threshold at which we will communicate misstatements to the Audit Committee to be £445k. |
| Materiality for senior officer remuneration | 10,600 | 10,600 | In accordance with ISA 320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior officer remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts. We have determined a lower materiality for senior officer remuneration disclosures (at individual officer level) linked to the total value of the disclosures and applying the same 1.3% benchmark as for the main financial statements. |

# 2. Financial Statements: Significant risks

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

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

| Risks identified in our Audit Plan | Commentary |
|---|---|
| Management override of controls<br>(Risk relates to  Council and Group)<br><br>Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities.<br><br>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.<br><br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement. | We have:<br>• evaluated the design and implementation of management controls over journals<br>• analysed the journals listing and determined the criteria for selecting high risk unusual journals<br>• identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration<br>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness and<br>• evaluated the rationale for any changes in estimates and unusual transactions.<br>From the sample testing of journals undertaken we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence.<br>Our approach to this work was informed by the findings made by our IT audit specialists from their review of the Council's IT general controls. This year  IT audit undertook a design and implementation review of the following applications, which were scoped into the review on the grounds that they impact the financial reporting of the Council:<br>• ERP (Finance, HR and Payroll)<br>• Altair (Pension Administration system)<br>• Active Directory (domain controller authenticating and authorising users and assigning and enforcing security policies, eg password control<br>Recommendations have been made in relation to the IT review – these can be found in Appendix B.<br>**Our work in this area is complete. We identified no findings from our work in this regard.** |

Page 58

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Presumed risk of fraud in revenue recognition**<br>**ISA (UK) 240**<br>(Risk relates to Council and Group)<br><br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br>Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of Shropshire Council, we have determined that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because:<br>• There is little incentive to manipulate revenue recognition<br>• Opportunities to manipulate revenue recognition are very limited; and<br>• The culture and ethical frameworks of public sector bodies, including Shropshire Council, mean that all forms of fraud are seen as unacceptable.<br>Therefore, we do not consider this to be a significant risk for the Council. | Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Council and Group's revenue streams, as they are material. We have:<br><u>Accounting policies and systems</u><br>• evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code<br>• updated our understanding of the Council's business processes associated with accounting for income<br><u>Fees, charges and other service income</u><br>• agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence.<br><u>Taxation, non-specific grant income and other grants</u><br>• applied substantive analytical procedures to income for national non-domestic rates and council tax. As part of this analytical procedure, we are required to test a sample of discounts and reliefs across the CT and NDR systems.<br>• sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate.<br>We also designed tests to address the risk that income has been understated, by not being recognised in the current financial year.<br>Our work in this area is complete. We identified no findings from our work in this regard. |
| **Risk of fraud related to expenditure recognition: Public Audit Forum (PAF) Practice Note 10**<br>(Risk relates to Council and Group)<br>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.<br>Having considered the nature of the expenditure streams of Shropshire Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition. | Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Council's expenditure streams, as they are material. In addition to reviewing the accounting policies as highlighted above, we have:<br><u>Expenditure</u><br>• updated our understanding of the Council's business processes associated with accounting for expenditure<br>• agreed, on a sample basis, operating expenditure, housing benefit expenditure, agency costs and year end creditors to invoices and cash payment or other supporting evidence<br>• performed substantive analytical procedures on the Council's employee remuneration costs and depreciation<br>We also designed tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year.<br>Our work in this area is complete. We identified no findings from our work in this regard. |

# 2. Financial Statements: Significant risks

**Risks identified in our Audit Plan**

Valuation of land and buildings – Other Land and Buildings -£436.6m

(Risk relates to Council)

Within the valuation of the Council's Other Land and Buildings, the valuer's estimation of the value has several key inputs, which the valuation is sensitive to. These include the build cost of relevant assets carried at depreciated historic cost and any judgements that have impacted this assessment and the condition of the current assets.

Depreciated replacement cost (DRC) is a method of valuation that provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation. Where DRC is used as the valuation methodology, authorities should use the 'instant build' approach at the valuation date and the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided.

For assets valued at existing use value and fair value, the key inputs into the valuation are the yields used in the valuation, including estimated future income from the asset.

We therefore have identified that the accuracy of the key inputs driving the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.



**Commentary**

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work
- evaluated the competence, capabilities and objectivity of the Council's valuation expert
- written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met
- challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding
- engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end
- for all assets not formally revalued or revalued on an indexation basis only, evaluated the judgements made by management in the determination of current value of these assets

Findings

Our work in this area is complete.

Our testing of Other Land and Buildings has identified an error in the use of an incorrect gross internal area (Oswestry Leisure Centre). This has been revalued based on the correct GIA and the value of the asset is now £2.1m lower than the initial valuation. When extrapolated across the remaining untested population there is residual uncertainty of £1.5m, a total potential misstatement of £3.6m.

This has been reported within Appendix D as an unadjusted misstatement.

We have raised recommendations in relation to the number of valuers involved in the Council's valuation process and asset capitalisation procedures. Further detail is in Appendix B.

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of Investment property - £60.7m**<br>(Risk relates to Council)<br>The valuation of investment property was not identified as a significant risk as part of our Audit Plan. During the audit we have reassessed this balance and reclassified as a significant risk.<br>The Council is required to revalue its investment property annually.<br>This valuation represents a significant estimate by management in the financial statements due to the values involved (£60.7m as per draft 2022/23 financial statements) and the sensitivity of this estimate to changes in key assumptions. | We have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work<br>• evaluated the competence, capabilities and objectivity of the Council's valuation expert<br>• written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met<br>• challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding<br>• engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations<br>• tested revaluations made during the year to see if they had been input correctly into the Council's asset register<br><br>Findings<br>**Our work in this area is complete. We identified no findings from our work in this regard.**<br>We have however raised recommendations in relation to the number of valuers involved in the Council's valuation process and asset capitalisation procedures. Further detail is in Appendix B. |

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of pension fund net liability**<br>(Risk relates to Council and Group)<br>The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.<br>The Council's pension fund net liability is considered a significant estimate due to the size of the numbers involved (£117.3m at 31 March 2023 and £498m as at 31 March 2022 per draft accounts and £126.4m at 31 March 2023 and £536.5m as at 31 March 2022 per updated accounts ) and the sensitivity of the estimate to changes in key assumptions.<br><br>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.<br><br>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.<br><br>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.<br><br>We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. | We have:<br>• updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls<br>• evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation<br>• assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities<br>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary<br>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report<br>• sought assurances from the auditor of Shropshire County Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data send to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.<br><br>Findings<br>Our audit work in this area is complete.<br>The response from the Pension Fund auditor includes details of an understatement of pension fund assets relating to a timing difference of £2.244m. Using an estimated share of net assets of 45.11% as part of their audit procedures the Pension Fund auditor estimated the potential impact for Shropshire is £987k. Therefore, the net pension liability recognised in the statement of accounts is overstated by £987k. This has been recorded as a misstatement.<br>This has been reported within Appendix D as an unadjusted misstatement. |

# 2. Financial Statements - Other risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Operating expenditure (completeness)**<br>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses.<br>Management uses judgement to estimate accruals of un-invoiced costs. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention. | We have:<br>• evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness<br>• gained an understanding of the Council's system for accounting for non-pay expenditure<br>• tested a sample of balances included within trade and other payables<br>• tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period.<br>• tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period.<br>Our work in this area is complete. We identified no findings from our work in this regard. |
| **Completeness, existence and accuracy of cash and cash equivalents**<br>Risk relates to Council | The receipt and payment of cash represents a significant class of transactions occurring throughout the year, culminating in the year-end balance for cash and cash equivalents reported on the statement of financial position.<br>Due to the significance of cash transactions to the Council, we identified the completeness, existence and accuracy of cash and cash equivalents as a risk which required special audit consideration.<br>Our work in this area is complete. We identified no findings from our work in this regard. |
| **Valuation of council dwellings - £236m**<br>The valuation of Council Dwellings was identified as a significant risk as part of our audit planning. During the audit we reviewed our risk assessment and have reclassified as 'other risk'.<br>The Council contracts an expert to provide annual valuations of council dwellings based on guidance issued by the Ministry of Housing, Communicates and Local Government (now Department for Levelling Up, Housing and Communities). They are valued using a beacon approach, based on existing use value discounted by the relevant social housing factor for Shropshire. Dwellings are divided into asset groups (a collection of property with common characteristics) and further divided into archetype groups based on uniting characterises material to their valuation, such as numbers of bedrooms.<br>A sample property, the "beacon" is selected which is considered to be representative of the archetype group and a detailed inspection carried out. The valuation of this asset is then applied to all assets within its archetype.<br>The key inputs into the valuation are the social housing factor, consideration of market movements and the determination of the beacons. | We have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work<br>• evaluated the competence, capabilities and objectivity of the valuation expert<br>• Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met<br>• challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding<br>• engaged our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations<br>• tested revaluations made during the year to see if they had been input correctly into the Council's asset register<br>Our work in this area is complete. We identified no findings from our work in this regard. |

Page 63

# 2. Financial Statements – Key findings arising from the group audit

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Our work group components is  complete. Our findings are summarised below.



| Component | Individually Significant? | Approach per Audit Plan | Findings |
|---|---|---|---|
| **Shropshire Council** | Yes | Full scope UK statutory audit performed by Grant Thornton UK LLP | See section 2 of this report |
| **Shropshire Towns and Rural (STaR) Housing Ltd** | No | Analytical review performed by Grant Thornton UK LLP. | No issues identified. |
| **West Mercia Energy** | No | Analytical review performed by Grant Thornton UK LLP. | No issues identified. |
| **Cornovii Developments Limited** | No | Analytical review performed by Grant Thornton UK LLP. | Within Appendix D we have reported:<br>• an adjusted misstatement regarding related party disclosures and Cornovii Developments Limited, and<br>• an unadjusted misstatement related to a net £0.2m movement in the profit and loss accounts following receipt of updated financial statements. |
| **IP &E Limited** | No | Analytical review performed by Grant Thornton UK LLP. | No issues identified. |
| **West Mercia Energy (Pension)** | No | Analytical review performed by Grant Thornton UK LLP. | No issues identified. |
| **SSC No 1 Limited** | No | Analytical review performed by Grant Thornton UK LLP. | No issues identified. |

# 2. Financial Statements – key judgements and estimates

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

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
| --- | --- | --- | --- |
| Land and Buildings – Other - £436.6m | Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its in-house valuer to complete the valuation of properties as at 31 March 2023.<br><br>The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years but are subject to an annual desktop review. | • We have engaged our own valuer to assist with our work and challenge in this area.<br>• We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.<br>• There have been no changes to the valuation method this year.<br>• We have considered the movements in the valuations of individual assets and their consistency with published indices. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging gross internal areas.<br><br>Our work in this area is complete.<br><br>Our testing of Other Land and Buildings has identified an error in the use of an incorrect gross internal area (Oswestry Leisure Centre). This has been revalued based on the correct GIA and the value of the asset is now £2.1m lower than the initial valuation. When extrapolated across the remaining untested population there is residual uncertainty of £1.5m, a total potential uncertainty of £3.6m.<br><br>This has been reported within Appendix D as an unadjusted misstatement.<br><br>We have raised recommendations in relation to the number of valuers involved in the Council's valuation process and asset capitalisation procedures. Further detail is in Appendix B. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious |

Page 65

**Assessment**

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

# 2. Financial Statements – key judgements and estimates

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

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Investment Property Valuation - £60.7m | Investment properties are 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).<br>Investment properties held at fair value are not depreciated. The fair value of investment properties 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.<br>As such the Council carries out an annual review to ensure their valuation reflects fair value at the balance sheet date. | • We have engaged our own valuer to assist with our work and challenge in this area.<br>• We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.<br>• There have been no changes to the valuation method this year.<br>• We have considered the movements in the valuations of individual assets and their consistency with published indices. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas.<br>**Our work in this area is complete. We identified no findings from our work in this regard.**<br>We have however raised recommendations in relation to the number of valuers involved in the Council's valuation process and asset capitalisation procedures. Further detail is in Appendix B. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious |

Page 66

**Assessment**

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

# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Net pension liability – £117.3m per draft accounts (£126.4m per updated accounts)<br><br>Prior year<br>£498m as at 31 March 2022 per draft accounts and £536.5m per updated accounts | The Council's net pension liability at 31 March 2023 is £117.3m (PY £498m) per draft accounts, comprising the Shropshire County Council Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.<br><br>The comparative financial information relating to the 2021/22 financial year has been updated to reflect the impact of updated membership information from the latest triennial valuation for Shropshire Pension Fund, which is as at 31 March 2022 and to agree to the signed 21/22 financial statements<br><br>As a result, we requested that management obtain a revised report from their actuary for the 2022/23 financial year as opening assets and liabilities would be different following the updated triennial information. | See audit comments below. | We consider management's process is appropriate and key assumptions are neither optimistic or cautious |

**Audit Comments**

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.
- We have used the work of PwC, as auditors' expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Shropshire County Council Pension Fund valuation as it applies to Shropshire Council.

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 4.80% | 4.7%-4.9% | ● (G) |
| Pension increase rate (CPI) | 2.70% | 2.70% for all employers | ● (G) |
| Salary growth | 3.95% | 3.95% to 4.20% (1.25% p.a. to 1.50% p.a. above CPI.) | ● (G) |
| Life expectancy – Males currently aged 45 / 65 | 45: 23.5<br>65: 22.2 | 22.4 - 24.3<br>21.0 – 22.6 | ● (G) |
| Life expectancy – Females currently aged 45 / 65 | 45: 26.3<br>65: 24.5 | 25.3 -26.6<br>23.5 – 24.7 | ● (G) |

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We are content with the adequacy of the disclosure of the estimate in the financial statements.

**Findings**

Our audit work in this area is complete.

The response from the Pension Fund auditor includes details of an understatement of pension fund assets relating to a timing difference of £2.244m . Using an estimated share of net assets of 45.11% as part of their audit procedures the Pension Fund auditor estimated the potential impact for Shropshire is £987k. Therefore, the net pension liability recognised in the statement of accounts is overstated by £987k. This has been recorded as a misstatement.

This has been reported within Appendix D as an unadjusted misstatement.

**Assessment**

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

# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Minimum Revenue Provision - £8.9m per draft accounts, £9.6m per amended accounts. | The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance and the Council's policy for the calculation of MRP is set out in its annual budget setting report presented to Council.<br><br>The year-end MRP charge was £8.971m per draft accounts. An amendment has been made to the MRP charge in relation to PFI assets, increasing this to £9.6m per the updated accounts. The amended MRP charge reflects a £316k increase on the 2021/22 charge.<br><br>The Council calculates MRP on capital expenditure using the Annuity basis., as allowed under the relevant guidance. For unsupported borrowing MRP is calculated based on an annuity basis over the expected life of the asset for which the borrowing was undertaken. Management consider this to be a prudent approach as it takes into account the materiality of each asset and its remaining useful life. | Benchmarking the Council's MRP as a percentage of its closing Capital Financing Requirement shows that in 2022/23 the Council's contribution represented 2%, an increase from 1.94% in 2021/22.<br><br>We assess this estimate, considering:<br>• whether the MRP has been calculated in line with the statutory guidance<br>• whether the Council's policy on MRP complies with statutory guidance.<br>• whether any changes to the authority's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council<br>• the reasonableness of the increase in MRP charge<br><br>*The Council's accounting policy 1.16 states 'Where the Council has made capital loans to third parties financed from the Council's 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.'*<br><br>Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation.<br><br>It is our view therefore that the Council's current policy is not in accordance with the current capital finance regulations but is reflected in proposed changes that are currently being consulted upon. As capital loans to third parties total £28m as at 31 March 2023 (£13m short term and £15m long term) we are satisfied this would not have a material impact on the MRP charged. A recommendation has been included within Appendix B.<br><br>**Our work in this area is complete. We identified no findings from our work in this regard.** | We consider management's process is appropriate and key assumptions are neither optimistic or cautious |

Page 68

**Assessment**

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

# 2. Financial Statements: key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
| --- | --- | --- | --- |
| Land and Buildings – Council Housing - £236m | The Council owns 4,000 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engaged the Valuation Office Agency (VOA) District Valuer to complete the valuation of these properties. The year end valuation of Council Housing was £236m in the draft accounts, a net increase of £11.9m from the 2021/22 balance of £224.1million. | The total housing stock was revalued as at 31 March 2023<br>• We have engaged our own valuer to assist with our work and challenge in this area.<br>• We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.<br>• The housing stock has been divided using the external valuer's judgements and knowledge by applying the beacon methodology. This approach is consistent with the prior year.<br>• We have considered the indices that the valuer has used in performing the valuation and are in the process of discussing the appropriateness of these with the Council and its valuer.<br>• We have considered the completeness and accuracy of the underlying information used to determine the estimate.<br><br>**Our work in this area is complete. We identified no findings from our work in this regard.** | We consider management's process is appropriate and key assumptions are neither optimistic or cautious |

Page 69

**Assessment**

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

# 2. Financial Statements: Information Technology

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

| IT application | Level of assessment performed | Overall ITGC rating | ITGC control area rating | | | Related significant risks/other risks |
|---|---|---|---|---|---|---|
| | | | Security management | Technology acquisition, development and maintenance | Technology infrastructure | |
| Unit 4 – ERP (Financial reporting and payment system) | ITGC assessment (design and implementation effectiveness only) | ● | ● | ● | ● | Management override of controls (journals), Valuation of PPE and investment property assets and valuation of Pension liability. |
| Active Directory | ITGC assessment (design and implementation effectiveness only) | ● | ● | ● | ● | Management override of controls (journals), Valuation of PPE and investment property assets and valuation of Pension liability. |

Page 70

**Assessment**

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

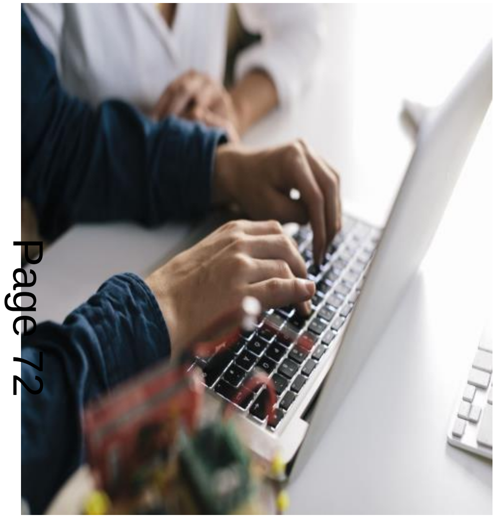
# 2. Financial Statements: other communication requirements

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



| Issue | Commentary |
|---|---|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We have identified a misstatement regarding related party disclosures, in particular, relating to debtor balances with Cornovii Developments Limited. This is reported within Appendix D.<br>We are not aware of any additional related parties or related party transactions which have not been disclosed. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation has been requested from the Council, including specific representations in respect of the Group and the Council's arrangements in respect of Equal Pay , which is set out at Appendix F . |
| Group Accounts | The financial statements include group accounts which report the consolidated position for the Council's subsidiaries and entities where it has significant control or influence. This includes Shropshire Town and Rural Housing Limited (STaR), the West Mercia Energy, West Mercia Energy (Pension) , Cornovii Developments Limited, IP & E Limited and SSC number 1 Limited.<br>Our analytical review of the other group entities and consideration of the group consolidation is now complete.<br>We have identified one disclosure misstatement. The Council's group 'adjustments between Group Accounts and Authority Accounts un the Group Movement in Reserves Statement' has been presented as a primary statement within the draft accounts. It is not a primary statement and as such the Council has moved this to a note within the group financial statements.<br>There are no other points to report. |

# 2. Financial Statements: other communication requirements



Page 72

| Issue | Commentary |
|---|---|
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to those organisations with which it banks, borrows and in which it invests. This permission was granted, and the requests were sent. However not all requests were received and so we undertook alternative substantive procedures. |
| Accounting practices | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. |
| Audit evidence and explanations/ significant difficulties | We continue to engage well with the central finance team and key staff members have been instrumental in supporting the wider audit, especially where requests require the involvement of other departments.<br>The 2022/23 audit has progressed at a faster pace than prior years but it has taken longer than expected. We are aware this has extended into the budget setting window of the council which we appreciate is a challenging time and puts competing demands on finance staff. We have encountered some delays in responses from departments outside of the finance team and this has been escalated to Senior officers within the Council. This has helped to move some outstanding items forward.<br>Moving forward, we will review, in detail, the 2022/23 audit process alongside the Council and agree how the 2023/24 audit timeline and procedures can be amended to ensure the audit is completed as efficiently as possible. |

# 2. Financial Statements: other communication requirements

### Our responsibility

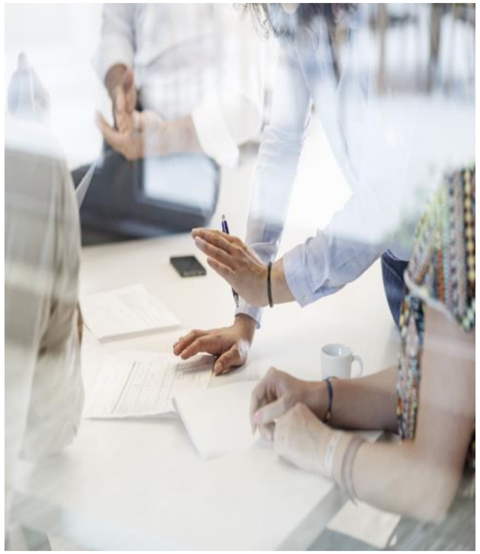
As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability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



| Issue | Commentary |
|---|---|
| Going concern | In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.<br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities<br>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.<br>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:<br>• the nature of the Council and the environment in which it operates<br>• the Council's financial reporting framework<br>• the Council's system of internal control for identifying events or conditions relevant to going concern<br>• management's going concern assessment.<br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified<br>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |

# 2. Financial Statements: other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Other information | We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect. |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,<br>• if we have applied any of our statutory powers or duties.<br>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.<br>We have nothing to report on these matters. |
| Specified procedures for Whole of Government Accounts | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>Note that detailed work is not required as the Council does not exceed the threshold. |
| Certification of the closure of the audit | We intend to delay the certification of the closure of the 2022/23 audit of Shropshire Council in the audit report, as detailed in Appendix I, due to our 2022/23 VFM work being incomplete and a prior years audit objection remaining open. |



# 3. Value for Money arrangements (VFM)

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

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

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



## Status of Value for Money work for 2022/23

We have substantially completed our VFM work and our detailed commentary will be shared with the Council as a separate report, the Auditor's Annual Report.

### Improving economy, efficiency and effectiveness

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

### Financial Sustainability

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

### Governance

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

## Potential types of recommendations

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

### Statutory recommendation

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

### Key recommendation

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

### Improvement recommendation

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

# 4. Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.



Details of fees charged are detailed in Appendix F.

### Transparency

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

# 4. Independence and ethics

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, which were charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees

| Audit-related service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| 2021/22 Certification of Housing capital receipts grant | £7,500 (complete and billed) | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is anticipated to be £7,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| 2022/23 Certification of Housing capital receipts grant | £10,000* (expected | Self review | To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| | | Management | To mitigate against the management threat, ie acting in the capacity of management, the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. |
| 2020/21 Certification of Teachers Pension Return | £5,400 (complete and billed) | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| 2021/22 Certification of Teachers Pension Return | £7,500 (complete and billed) | Self Review | To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| | | Management | To mitigate against the management threat, ie acting in the capacity of management, the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. |
| 2022/23 Certification of Teachers Pension Return | £10,000* (in progress) | | |
| 2021/22 Certification of Housing Benefit Claim | £28,500 (complete, to bill) | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is anticipated to be £25,700 (based on prior year volume of testing) in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| 2022/23 Certification of Housing Benefit Claim | £25,700* (in progress) | Self Review | To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| | | Management | To mitigate against the management threat, ie acting in the capacity of management, the scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. |

* £45,700 relating to 2022/23 audit year

# 4. Independence and ethics

Audit and non-audit services – continued

| Audit-related service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| Homes England 2021/22 | £5,500 | Self-Interest | This is potentially a recurring fee and therefore high self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £5,500 in comparison to the total fee for the audit and in particular to GTUK's turnover overall.<br>The work is on audit related services. It is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. This is potentially a recurring fee and therefore high self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £5,500 in comparison to the total fee for the audit and in particular to GTUK's turnover overall. The work is on audit related services. It is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| iXBRL tagging – Service carried out by separate Grant Thornton team for the Council's subsidiary Shropshire Towns and Rural Housing Limited (STaRH) 2022/23 first year | £550 | Self - Interest | This is potentially a recurring fee and therefore high self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £550 in comparison to the total fee for the audit of either Shropshire Council or Shropshire Towns and Rural Housing Limited (STaRH) and, in particular, to GTUK's turnover overall.<br>The work is on audit related service. It is carried out for and billed to STaRH, not the Council. It is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. This is potentially a recurring fee and therefore high self-interest threat. However, the level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work of £550 in comparison to the total fee for the audit and in particular to GTUK's turnover overall. |

# 4. Independence and ethics

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

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

# Appendices

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

| Our communication plan | Audit Plan | Audit Findings |
|---|---|---|
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks | • | |
| Confirmation of independence and objectivity | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant findings from the audit | | • |
| Significant matters and issue arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter | | • |



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

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

### Respective responsibilities

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

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

### Distribution of this Audit Findings report

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

# B. Action Plan – Audit of Financial Statements

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

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Low – Best practice | **IT recommendation 1**<br>Lack of review of information security/audit logs in the Active Directory<br>We noted that there are 21 generic accounts in the Active Directory that are controlled by the Council.<br>However, the information security event logs, which capture the monitoring of activities such as failed logins and use of privileged user accounts within Active Directory are not reviewed.<br>**Risk**<br>Without formal and routine reviews of security event logs, inappropriate and anomalous activity may not be detected and resolved in a timely manner.<br>Additionally, unauthorised system configuration and data changes made using privileged accounts will not be detected by management. | **Recommendation**<br>Information security events such as<br>• repeated invalid/ unauthorised login attempts to access systems, data or applications<br>• privileged user activities<br>• privileged generic accounts<br>• changes to system configurations, tables and standing data<br>should be logged and formally reviewed.<br>It is recommended that security event logs are reviewed on a regular basis for example daily or weekly, ideally by an IT security personnel / team who are independent of those administrating [the application] and its underlying database.<br>Any issues identified within these logs should be investigated and mitigating controls implemented to reduce the risk of reoccurrence.<br>**Management response - November 2023**<br>• Due to the extreme volume of login information captured by the various DC controllers a review of failed logins is not practical. Other controls are in place such as Conditional access rules, Geo Access rules, Device access controls, multi factor authentication that limit/prevent unauthorized access.<br>• Generic accounts are only ever created after permission by the ISIG function<br>• Global Security events are monitored by both ICT and our external SOC service. |

Page 82

**Controls**

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

# B. Action Plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Low – Best practice | IT recommendation 2<br>Insufficient evidence of Implementation of Cyber Security Controls<br>We noted the following deficiencies:<br>• The Council has not adopted a cyber security framework.<br>• No formal cyber incident response plan.<br>• Lack of maintaining baseline security configuration standards and configurations for IT components (for example, networking equipment, cybersecurity equipment, servers, and workstations, mobile devices).<br>Risks<br>Not being able to evidence the existence and operation of cyber-security controls makes it difficult for the business to confirm that they are adequately protected against the threat of a potential cyber incident. In particular:<br>Cybersecurity risk is the probability of exposure, loss of critical assets and sensitive information, or reputational harm because of a cyber-attach or breach within an organisation's network.<br>Lack of policies or outdated policies can leave organisations at risk by failing to comply with new laws and regulations. They may not address new systems or technology which can result in inconsistent practices across the organisation. | Recommendation<br>In the absence of appropriate evidence, it has been assumed that cyber-security controls are not in place; therefore, it is recommended that Management implement and review all key policy and process documents on an annual basis. Reviews should be undertaken by a member of staff with appropriate knowledge and approved by management. The review/update should be formally documented within each document in a change and revisions reference table.<br>Management response - November 2023<br>• The Council is working to create the documentation listed.<br>• Cyber security frameworks are being considered.<br>• Key system configurations are backed up and their configuration changes controlled. |

Page 83

**Controls**

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

# B. Action Plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium – Limited effect on financial statements | **Number of management experts (recommendation relevant to 2021/22 and 2022/23 audit)**<br>The Council now engages with four valuation experts in relation to its asset portfolio, five including the 2021/22 CAD expert , although it is appreciated this is not a regular appointment. When compared to similar organisations , it is unusual for four experts to be involved in the valuation of Property, Plant and Equipment | The Council should review these arrangements annually to ensure all engagements remain appropriate and necessary.<br>**Management response**<br>All arrangements have been reviewed and it is considered appropriate to have different experts involved, due to the subject matter of the asset valuations and to ensure no conflicts of interest. |
| Medium – Limited effect on financial statements | **Final accounts closedown (recommendation relevant to 21/22 and 22/23 audit)**<br>We continue to engage well with the central finance team and we have seen increased direct involvement in the audit with Estates and Facilities team throughout the audit . This has been instrumental in progressing complex areas of the audit.<br>There are departments, however, where there has been a lack of engagement in the 2021/22 audit process. We appreciate the priorities and pressures on the departments do fluctuate however we have been unable to progress our work efficiently in some areas incurring additional audit time and effort.<br>We are working with the Council's finance team to progress these issues as quickly as possible. | The Council should ensure all key departments are involved at an early stage of the 2022/23 accounts planning process and their role in the audit process discussed in order to address any expectation gaps.<br>**Management response**<br>All departments involved in the audit process have been notified of likely timescales and the expectations for information and queries that they will be involved in within the 2022/23 audit planning process.. |
| Medium – Limited effect on financial statements | **Asset capitalisation (recommendation relevant to 2021/22 and 2022/23 audit)**<br>Our testing of PP&E additions and review of information in both the 2021/22 and 2022/23 financial years has identified items of capital expenditure capitalised in the wrong accounting period. | The Council should review its year end process in relation to capital accruals to ensure assets are capitalised in the correct financial year.<br>**Management response**<br>This process has been reviewed in the 2022/23 closedown procedures to ensure that assets are capitalised in the correct financial year. |

Page 84

**Controls**

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

# B. Action Plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium – Limited effect on financial statements | MRP policy (recommendation relevant to 2021/22 and 2022/23 audit)<br>*The Council's accounting policy 1.16 states 'Where the Council has made capital loans to third parties financed from the Council's 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.'*<br><br>It is our view that this is not in accordance with the current capital finance regulations but is reflected in proposed changes that are currently being consulted upon. As capital loans to third parties total £20m as at 31 March 2022 we are satisfied this would not have a material impact on the MRP charged. | The Council should keep its MRP policy under review and ensure it is charged in accordance with the Capital Finance Regulations.<br><br>Management response<br>The Council will review the MRP policy to ensure it is in line with current capital finance regulations. The MRP resulting from the change is not material. |
| Medium – Limited effect on financial statements | The Council should review its accounting polices to ensure they remain appropriate. In particular in relation to:<br>• Finance leases<br>• Diocese schools remaining on balance sheet- The Council currently holds £10.2m diocese schools within its financial statements. The Council should ensure it revisits the assessment of 'control' regarding the 5 schools remaining on council's balance sheet as this assessment was completed a number of years ago.<br>• Material estimation uncertainty | Management response<br>The Council performs a review of its accounting policies each year to identify any specific changes that need to be reflected and this task will remain a key part of the Statement of Accounts review that we undertake. |
| Medium – Limited effect on financial statements | The council should review its disclosures in relation to Pension guarantees and whether disclosure under contingent liability is the most appropriate treatment | Management response<br>Management has assessed the value of the liability under IFRS 4 and found the risk figure to be below triviality. This will be kept under review in each year's Statement of Accounts. |

Page 85

**Controls**

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

# C. Follow up of prior year recommendations

We identified issues in the audit of Shropshire Council's 2021/22 financial statements, which resulted in eight recommendations being reported in our 2021/22 Audit Findings report. Due to the timing the 2021/22 Audit findings report it is reasonable that the Council has not yet had the opportunity to implement. We will follow up recommendations as part of the 23/24 audit for the 21/22 and 22/23 financial years

# D. Audit Adjustments

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

### Impact of adjusted misstatements

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

As part of the Council's reporting to the September 2023 Audit Committee a detailed paper was included titled 'Approval of the Council's Statement of Accounts 2022/23' which, in paragraph 8.2 includes a clear summary changes made between the draft financial statements dated 31st May 2023 and the updated accounts . This included the pensions adjustment below.

| Detail | Comprehensive Income and Expenditure Statement | Statement of Financial Position | Impact on total net expenditure |
|---|---|---|---|
| <u>Pensions adjustments following 2022 triennial valuation (impact single entity and group)</u><br>The Council is a scheduled body within Shropshire Pension Fund. The latest triennial valuation for Shropshire Pension Fund was published in March 2023. This valuation, which is as at 31 March 2022, provides updated information for the net pension liability on the Council's balance sheet, particularly in respect of membership data and demographic assumptions. The Council has revised its 31st March 2022 financial statements and also received an updated IAS 19 report as at 31st March 2023 following the prior year restatement.<br><br>There is a net nil impact on the general fund in respect of this adjustment due to statutory adjustments the Council is required to make<br>The total movement in year of £28.8m as shown in the Income and Expenditure Statement includes the movement in the 2021/22 opening balance of the Pensions Liability and Unusable Reserves of £37.9m The net difference of £9.1m being reflected as the increase in pension liability as at 31 March 2023 compared to the draft financial statements. | Increase in remeasurement of Net defined Benefit Liability of £28.8m | Increase in pension fund net liability opening balance (£37.9m)<br><br>In year CIES movement £28.8m<br><br>=<br><br>Increase in pension liability as at 31 March 2023 = £9.1m (£117.3m to £126.4m) | Increase in net expenditure of £28.8m (reversed in Movement in reserves statement therefore no impact on the Council's general fund balance) |
| Overall impact | £28.8m | £9.1m | £28.8m |

Page 87

### Comparative changes

Material changes have been made to the 2021/22 financial statements in relation to the 2022 triennial valuation. We are satisfied with the amendments made within the 2021/22 financial statements and that the subsequent amendments have now been made within the 2022/23 financial statement comparatives.

# D. Audit Adjustments

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

### Impact of unadjusted misstatements

There are two adjustments identified during the 2022/23 audit which has not been made within the final set of financial statements.

| Detail | Comprehensive Income and Expenditure Statement | Statement of Financial Position | Impact on total net expenditure | Reason for not adjusting |
|---|---|---|---|---|
| <u>Pension asset</u><br>The response from the Pension Fund auditor includes details of an understatement of pension fund assets relating to a timing difference of £2.244m . Using an estimated share of net assets of 45.11% as part of their audit procedures the Pension Fund auditor estimated the potential impact for Shropshire is £987k. Therefore, the net pension liability recognised in the statement of accounts is overstated by £987k. This has been recorded as a misstatement. | | Decrease net pension liability £987k<br>Decrease Pension reserve £987k | | This is an estimation – adjustment is not expected |
| <u>Other Land and Buildings (OLB) – Gross internal areas</u><br>Our testing of Other Land and Buildings has identified an error in the use of an incorrect gross internal area (Oswestry Leisure Centre). This has been revalued based on the correct GIA and the value of the asset is now £2.1m lower than the initial valuation .<br>When extrapolated across the remaining untested population there is residual uncertainty of £1.5m. | | Decrease in OLB £3.6m<br>Decrease in revaluation reserve £3.6m | | **Management comment**<br>Procedures will be put in place to confirm that GIA figures provided to valuers have been correctly applied. This should minimise the risk of any future misstatements. |

# D. Audit Adjustments

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

### Impact of unadjusted misstatements

To be confirmed upon completion of our audit procedures.

### Impact of unadjusted misstatements - prior year

There were 2 unadjusted misstatements reported in the 2021/22 Audit Findings Report presented to this Committee alongside this report in November 2023. The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements.

Both amendments have been made within the 2022/23 financial statements.



| Detail | Comprehensive Income and Expenditure Statement | Statement of Financial Position | Impact on total net expenditure | Reason for not adjusting |
|---|---|---|---|---|
| Cornovii Developments Limited- financial statements (impact Group only) - actual error<br>Cornovii Developments Limited is a wholly owned subsidiary of the Council, as such the accounts of Cornovii are consolidated on a line by line basis into the Council's Group Accounts.<br>At the time the Council's financial statements were prepared, only draft accounts of Cornovii were available for consolidation purposes. Cornovii's final accounts were signed in November 2022 and values within these statements were different to the draft version used by the Council. These include the following non trivial differences : | | | | **Management comment**<br>The change was not material and so it was planned that this would be reflected in-year in the 2022/23 Statement of Accounts |
| • Debtors £881k lower in final accounts compared to draft | | (£0.8m) | | |
| • Cash and bank balances £1.4m lower in final accounts compared to draft | | £1.4m | | |
| • Creditors £844k higher in final accounts compared to draft | | (£0.8m) | | |
| • Profit and loss £200k lower in final accounts compared to draft | £0.2m | | | |
| Property, plant and additions (Impact single entity and Group) - actual error<br>Assets additions capitalised in 22/23 which relate to 21/22 financial year | | | | **Management comment**<br>This would affect multiple statements and notes if this was processed, therefore agreed as this is not material, this would not be changed. |
| • PPE additions | | £1.021m | | |
| • Capital accruals | | (£1.021m) | | |
| Overall impact - Group financial statements | £0.2m | £0.2m | £0.2m | |
| Overall impact – Single entity financial statements | 0 | 0 | 0 | |

# D. Audit Adjustments

## Misclassification and disclosure changes - continued

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

| Disclosure/issue/Omission | Auditor recommendations | Adjusted? | Reason for non adjustment |
|---|---|---|---|
| **General**<br>A small number of other minor amendments were made to correct typing errors, page numbering and incorporate additional narrative information. We do not deem these significant enough to bring to the attention of those charged with governance. | Amend typographical and formatting points. | Yes | N/A |
| **Cashflow**<br>The Council has reviewed its allocation of investing and financing transactions for the 2022/23 financial year. We are satisfied this disclosure is appropriate and the Council has updated comparatives to reflect signed 21/22 financial statements.<br>This has no impact on the Councils level of reserves and adjustments are contained within the comparative cashflow statement and associated notes. | The council should restate its comparative cashflow disclosures | Yes | N/A |
| Cash flow statement<br>There is a material error in the cash flow statement.<br>The £28.8m reported in note 29 (final table) includes the £20.5m capital loan repayments. This has not flowed through SDPS, as such cannot be adjusted from it. This needs to be restated to £8.2m which are the actual cash proceeds from sale of PPE and then links through to the profit/loss on disposal.<br>This then impacts Investing activities, note 30. Proceeds from sale of PPE needs to reflect that shown in note 29, ie £8.2m instead of currently shown £2.6m. Other cash receipts from investing activities needs to be reduced by £26.1m as there is a duplication. | Amendments to stated values required | Yes | N/A |
| Audit Fee disclosure not in line those stated in the Audit Plan. | The Council should amend note 35 to include £179k fees payable to external audit services carried out by the appointed auditor rather than £213k.<br>Fees payable to external audit for the certification of grant claims and returns should be changed to £42k and the row below for other services totalling £12kremoved. | Yes | N/A |
| Financial instruments – fair value measurement<br>The Council's fair value measurement in relation to PFI liabilities is based on a discount rate using premature repayment rates. This is not in accordance with IFRS 13. | The Council should restate the fair value of its PFI liabilities using appropriate rate | Yes | N/A |

# D. Audit Adjustments

## Misclassification and disclosure changes - continued

| Disclosure/issue/Omission | Auditor recommendations | Adjusted? | Reason for non adjustment |
|---|---|---|---|
| **Exit Packages**<br>Disclosure did not include a band for those with exit packages between £0 - £20,000 and also needed to group exit packages above £40,001. | The Council to amend Exit package banding disclosure. | Yes | N/A |
| **Note 41, Related parties**<br>Disclosures are not complete in relation to Cornovii Housing Limited. | Related party not to be updated to include details of debtor balances of £13.250m between the Council and Cornovii Housing Limited. The Council should update this disclosure | Yes | N/A |
| **Note 15, Property Plant and Equipment**<br>Disclosure table refers to fair value rather than 'current Value' | Terminology to be updated. | Yes | N/A |
| **Note 16, Investment Property**<br>Totals within note do not agree. | £5,336k shown in the 'current' column should be recorded on 'to/from current/long term rather than to/from PPE | Yes | N/A |
| **Contingent Liability**<br>Additional disclosure within financial statements regarding contingency liability position in relation to RAAC (Reinforced Autoclaved Aerated Concrete) | The Council should consider its current disclosure and include necessary narrative regarding the Councils RAAC status. | Yes | N/A |
| **Financial instruments**<br>Accounting policies - Financial assets measured at amortised cost - 'loans and receivables' is out of date terminology from IAS 39. Definition as 'assets that have fixed or determinable payments but are not quoted in an active market' is also out of date and not fully in line with IFRS 9 . | Accounting policy should be updated to reflect IFRS 9 requirements | Yes | N/A |
| Accounting policies 1.27 – employee benefits<br>Note states 'liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality corporate bonds of appropriate duration). This is incorrect and should state 4.8% | Discount rate to be changed to 4.8% | Yes | N/A |

# D. Audit Adjustments

## Misclassification and disclosure changes - continued

| Disclosure/issue/Omission | Auditor recommendations | Adjusted? | Reason for non adjustment |
| --- | --- | --- | --- |
| **Note 4 – Estimation uncertainty disclosures**<br>Per IAS 1, this disclosure should include the carrying amount of the relevant assets/liabilities for each source of estimation uncertainty described, including relevant sensitivity analysis. At present this is disclosed for some, but not all areas of estimation uncertainty. | The Council should review its disclosures relating to estimation uncertainty against the requirements of IAS1.<br><br>We have also raised a recommendation for the council to review current disclosures to ensure all meet the criteria for material estimation uncertainty. | Yes | N/A |
| **Note 19- Leases**<br>Code 4.2.1.3 scopes PFI arrangements out of the leasing section of the Code, so PFI balances do not need to be included in the leases note. | PFI balances should be removed from note 19, leases. | Yes | N/A |
| **Note 20 – Financial Instruments**<br>There is an inconsistency between cash and cash equivalents disclosed as £27m within financial instruments but £27.6m in within the balance sheet<br>Disclosures regarding overdue debtors refer to £22.3m debtors but it is unclear how this links with the £16m Long Term and £52m Short Term debtors also disclosed within the financial instruments note. | The Council should add further narrative within the financial instruments note to make it clear to the reader how values link to other financial statement notes. | Yes | N/A |
| Cash flow statement – note 29<br>'Wording of 'impairment and downward valuations' of £11.779m does not reflect the nature of the transaction. | Note 29 narrative to be amended regarding the £11.779m 'impairment and downward valuations' | Yes | N/A |

Page 92

# D. Audit Adjustments

Misclassification and disclosure changes - continued

| Disclosure/issue/Omission | Auditor recommendations | Adjusted? | Reason for non adjustment |
|---|---|---|---|
| Note 30 – Cash flow statement – Investing Activities<br>There is a £29m entry in 'other payments for investing activities'. It is unclear what this relates to. | For individually material items the council should include additional narrative regarding nature of transaction. | Yes | N/A |
| Group CIES<br>Group CIES does not include a line for Share of other comprehensive income and expenditure of associates and joint ventures<br>Impact on Other Comprehensive Income and Expenditure per the group accounts includes movements of £10m compared to single entity, this is a material movement. | Group accounts disclosures and accounting treatment for joint venture to be reviewed and amended.<br>For individually material items the council should include additional narrative regarding nature of transaction. | Yes | N/A |
| HRA – Property, Plant and Equipment note refers to incorrect financial year. | Amend financial year disclosures. | Yes | N/A |
| Note 17 – capital financing requirement. Capital investment of £70.235m does not include £684k of PFI assets, these have incorrectly adjusted to MRP | Increase capital investment – PPE by £684k, to £70.919m and increase MRP by £694k to (£9.655) | Yes | N/A |
| Note 10 includes a row headed 'Transfer of non-current asset proceeds from revenue to the Capital Receipts Reserve'. Further narrative is required this is not fully a transfer from revenue. | Enhance disclosure regarding the treatment of housing loan transactions and the impact on the Council's accounts. | Yes | N/A |

Page 93

# D. Audit Adjustments

Misclassification and disclosure changes - continued

| Disclosure/issue/Omission | Auditor recommendations | Adjusted? | Reason for non adjustment |
|---|---|---|---|
| Narrative Report<br>As per CIPFA Code paragraph 3.1.1.16 The Narrative Report should allow the users to understand how materiality and the Group Accounts boundary decisions are made in relation to what is included in the financial statements of the authority and the impact on the financial statements.<br>The Council's Narrative report does not currently include this disclosure. | The Council should review and update its narrative report disclosures to ensure compliant with CIPFA code | No | **Management response**<br>The narrative report refers to Group Accounts but probably needs more information to be included. Will perform a full review of the requirements of the Code for the Narrative Report in future years. |
| **Group accounts**<br>The Council's group 'adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement' has incorrectly been presented as a primary statement within the draft accounts. | The Council should move this disclosure to a note within the group financial statements rather than showing as part of primary statements. | **Yes** | Yes |

# E. Fees

## We confirm below our final fees charged for the audit and provision of non-audit services.

| Audit fees | Proposed fee | Final fee |
|---|---|---|
| Council Audit | £178,249* | £179,699* |
| Audit of subsidiary company - Shropshire Towns and Rural (STaR) Housing Ltd | £34,000 | £34,000 |
| Total audit fees (excluding VAT) | £212,249 | £213,699 |

* See overleaf for a breakdown of the fee. This information was provided in our Audit Plan but is reproduced overleaf for completeness.

| Non-audit fees for other services | Fees |
|---|---|
| **Audit Related Services:** | |
| • Housing capital receipts ** | £10,000 |
| • Teachers Pension Return ** | £10,000 |
| • Housing Benefit Subsidy Claim | £25,700 |
| **Total non-audit fees (excluding VAT)** | **£45,700** |

** These are proposed fees as the work in respect of these grant claims is incomplete. Therefore we are not in a position to confirm final fees as at the time of writing.



A reconciliation of the  Council's External Audit Costs Note 37 of the accounts to fees above is as follows.

| | |
|---|---|
| Council Audit fees   (as above) | £180k |
| Total non-audit fees for other services (as above) | £45k |
| Accrual made by Council based on Scale fee consultation | £35k |
| Grant claim fee difference (housing capital receipts) | (£4k) |
| Rounding difference | (£2k) |
| **Total external audit costs as reported in note 35** | **£254k** |

**35. 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:

| | 2022/23 £000 | 2021/22 £000 |
|---|---|---|
| Fees payable to external audit with regard to external audit services carried out by the appointed auditor | 213 | 175 |
| Fees payable to external audit for the certification of grant claims and returns | 29 | 23 |
| Fees payable in respect of other services provided by the external audit during the year | 12 | 9 |
| Total | 254 | 207 |

We have now completed our work regarding an objection received in relation to the 20/21 financial statements. Our fee for this work is £4,950.

We are satisfied that statutory fees as well as non-audit fees for other services as set out in this report, reconciles to the draft financial statements (note 35). We have requested amendment to the disclosure to remove the £35k accrual made based on scale fee consultation.  The fee of £34,000 in relation to Shropshire Towns and Rural (STaR) Housing Ltd is not included within the financial statements of Shropshire Council.

None of the above services were provided on a contingent fee basis. This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

# E. Fees and non-audit services (per 2022/23 Audit plan)

| Audit fees | Proposed fee | Final fee |
|---|---|---|
| **Scale fee published by PSAA for 2022/23**<br>(This includes 'baked-in' increases from previous years which continue to apply for future years in relation to:<br>• £4,375 pension valuations<br>• £4,375 for Group accounting<br>• £3,750 for PFI<br>• £6,250 for additional FRC challenge | 121,811 | 121,811 |
| Increases not included within revised scale fee - £5,438 for PP&E valuations | £5,438 | £5,438 |
| Continued impact in relation to decreased materiality | £3,750 | £3,750 |
| Impact of ISA540 | £6,000 | £6,000 |
| Enhanced audit procedures on journals testing (not included in the Scale Fee) | £3,000 | £3,000 |
| Increased audit requirements for ongoing raising of quality standards - FRC | £1,500 | £1,500 |
| Infrastructure | £2,500 | £2,500 |
| Other complex issues | £3,000 | £3,000 |
| Appointment of auditor's expert in respect of PP&E valuations | £5,000 | £5,000 |
| Enhanced audit procedures for Payroll – Change of circumstances | £500 | £500 |
| Enhanced audit procedures for Collection Fund - reliefs testing | £750 | £750 |
| Increased audit requirements of revised ISAs 315 | £5,000 | £5,000 |
| Additional work on Value for Money (VfM) under new NAO Code | £20,000 | £20,000 |
| Property, Plant and Equipment – delays to evidence | | £1,450 |
| **Total proposed audit fees 2022/23 (excluding VAT)** | **£178,249** | **£179,699** |

# F. Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

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

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

Page 97

| Area of change | Impact of changes |
|---|---|
| Risk assessment | The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:<br>• the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures<br>• the identification and extent of work effort needed for indirect and direct controls in the system of internal control<br>• the controls for which design and implementation needs to be assess and how that impacts sampling<br>• the considerations for using automated tools and techniques. |
| Direction, supervision and review of the engagement | Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures. |
| Professional scepticism | The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• increased emphasis on the exercise of professional judgement and professional scepticism<br>• an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence<br>• increased guidance on management and auditor bias<br>• additional focus on the authenticity of information used as audit evidence<br>• a focus on response to inquiries that appear implausible |
| Definition of engagement team | The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor.<br>• Consideration is also being given to the potential impacts on confidentiality and independence. |
| Fraud | The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• clarification of the requirements relating to understanding fraud risk factors<br>• additional communications with management or those charged with governance |
| Documentation | The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed. |

# F. Management Letter of Representation (continued)

**Date – To be confirmed**

Dear Grant Thornton

**Shropshire Council**
**Financial Statements for the year ended 31 March 2023**

This representation letter is provided in connection with the audit of the financial statements of Shropshire Council and its subsidiary undertakings, Shropshire Towns and Rural Housing Limited, SSC 1 Limited and Cornovii Developments Limited for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law. We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:



**Financial Statements**

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

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

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. PPA – to be confirmed upon audit completion

viii. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

ix. Except as disclosed in the group and Council financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the group and Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

x. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

xi. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

# F. Management Letter of Representation (continued)

Page 99

xii. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xiii. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council. The financial statements are free of material misstatements, including omissions.

xiv. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xv. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xvi. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

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

xvii. We have considered whether the Council is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised on the grounds that:

a. In October 2018, Shropshire Council returned to National Joint Council (NJC) rates of pay for Local Government's Job Evaluation Scheme which ensures that work of equal value is allocated to the same salary banding, progression within which is determined by performance. The scheme is regularly updated to comply with equal pay legislation.

b. We do not have 'task and finish' working arrangements in place. All staff at the council are employed on either annualised hours or work to a specified rota appropriate to the service area.

c. The Council's Pay Policy Statement determines its approach to pay and the Remuneration Committee ensures the provisions set out in the statement are applied consistently throughout the Council.

**Information Provided**

xviii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements,from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

# G. Management Letter of Representation (continued)

Page 100

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Annual Governance Statement**

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

**Narrative Report**

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

**Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 23rd November 2023.

Yours faithfully

Name……………………………

Position…………………………..

Date…………………………….

Name……………………………

Position…………………………..

Date…………………………….

**Signed on behalf of the Council**

# H. Audit letter in respect of delayed VFM work (presented to September Audit Committee as part of Audit Plan)

Note that this letter does not form part of our formal communications under ISA 260 (Communication with Those Charged with Governance) but is included here for ease of reference.

Page 101

Audit Committee Chair
Shropshire Council

Dear Councillor Williams, Chair of Audit Committee as TCWG,

**2021/22 & 2022/23– Auditors' Annual Report**

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

We wrote to you on 27 September 2022 to confirm that we expected to publish our Auditor's Annual Report for 2021/22 including our commentary on arrangements to secure value for money, no later than 30 September 2023. Since this date and in line with guidance issued by the NAO a joint report will now be prepared for 2021/22 and 2022/23 audit years. As such we now expect to publish our joint report for 2021/22 and 2022/23 by 31 December 2023.

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

Yours faithfully

**Grant Patterson**

Director and Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

grantthornton.co.uk